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BUSINESS NEWS

France Telecom hopes alliance will drive global growth

World Equity Markets
The latest trends and data from more
than 50 national markets at a glance
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German conglomerate poised for full-blown takeover of Swiss industrial group

Rhône-Poulenc shares ended the day in Paris up FFfr8.70, or 3.4 per cent, at FFfr261.80.

Additional reporting by William Hall in Zurich and Ralph Atkins in Bonn.



they were looking to reach a deal on European corporation tax harmonisation during Germany's

Mr Lafontaine linked the issue to Germany's demands for a rethink of its high contribution to the EU's budget. He said it was not acceptable that net recipient countries were offering compa-

Hans Tietmeyer, Bundesbank president, said at the summit that he expected the process of interest rate convergence to be

Mandelson, the pro-euro trade and industry secretary, insisted

that BMW had not been given any special assurances. "It is natural that they would like to get a feel of where we are on this. But they will have been given the standard line that if it is a success and in our economic interests to join, we will join."

the crisis at Rover could have been avoided if the UK had opted to join the euro in the first wave. "Pischetsrieder would have made that point forcibly," said an industry insider close to BMW.

The company would not comment on whether it had sought

reassurance, but said: "We would like to see Britain as part of Emu [European economic and monetary union]. The British pound is overvalued because of its high interest rates."

BMW is planning to invest £1.5bn in the ageing Longbridge plant to build lines to make the

new Mini, the MG sports car and a new medium-sized car. But it is looking for at least £200m of public money to subsidise the programme and has warned that production of the new medium-sized car could be switched to Austria or Hungary.

NO formal request for aid has yet been lodged, but ministers recognise a generous package will be required to safeguard jobs at Longbridge.



The benchmark securities repurchase rate is 3.3 per cent in Germany, France, Austria and the Benelux countries. Reimut Jochimsen, president of the North-Rhine Westphalia state

central bank, said a unilateral German interest rate cut would be counter-productive and potentially damaging at a time when there was sufficient liquidity in the economy.

Bankers wary, Page 3



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WORLD MARKETS

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ABDULLAH OCALAN ROW OVER EXTRADITION OF PKK LEADER

Italian sympathy for Kurdish issue makes Turks fearful

By Christopher de Bellaigue

The moustachioed figure of Abdullah Ocalan could be mistaken for any number of economic refugees who have fled the Middle East for western Europe, but his is an altogether uncommon case.

He is the international face of armed Kurdish nationalism and Turkey's most wanted man. As such, he has the potential to cause a serious rupture in relations between two Nato allies. When Mr Ocalan was arrested at Rome airport last Thursday night, Mesut Yilmaz, Turkey's prime minister, said it was the "heaviest blow" meted out to the Kurdish Workers party (PKK) since Mr Ocalan set it up in 1978. Now, Turkey and Italy are locked in a row over his extradition and it is the PKK that can smell a victory.

The importance to Turkey of Mr Ocalan's capture would be difficult to overstate. For 14 years he has led an armed struggle for Kurdish autonomy in the country's Kurdish-majority south eastern provinces. Fighting Mr Ocalan's Marx-

ist PKK in a war that has taken 30,000 lives costs Turkey some \$7bn a year to wage and keeps millions of Kurds a resentful minority. Thanks to the uprising, much of Turkey's south-east is an economic wasteland. But Mr Ocalan's importance is just as discernible beyond the south-east and his hand has been felt on almost every area of Turkish policy.

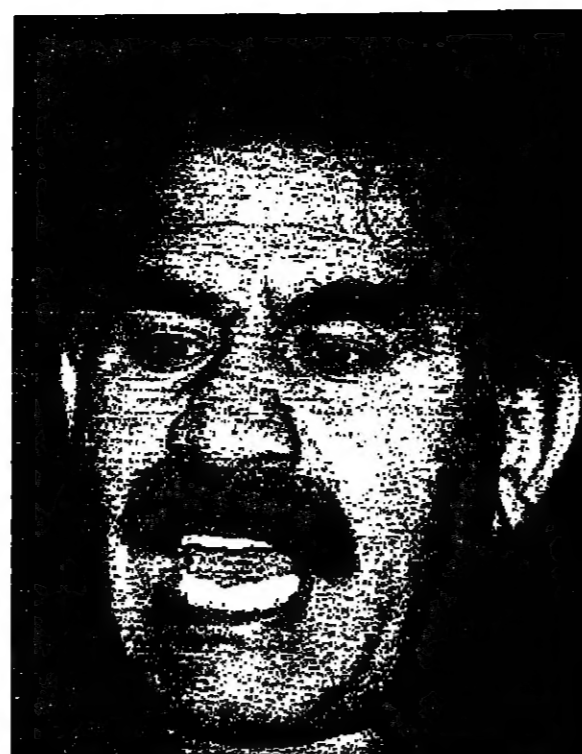
This influence, baleful from Ankara's viewpoint, was rarely more evident than last month, when Turkey threatened war if Syria, Mr Ocalan's intermittent base since the early 1980s, did not formally cut its support for him. Syria complied. But Turkey's relations with Russia were then stretched uncomfortably when Mr Ocalan made a request for asylum there. Earlier this month, Turkey enraged another neighbour, Iraq, when up to 25,000 Turkish troops struck deep into northern Iraq in search of PKK rebels who had crossed the border from Syria.

Arguably, Mr Ocalan exerts as much influence over Turkey's relations with Europe as the policy-makers

in Ankara. By brutally suppressing even mild forms of minority nationalism, Turkey has watched its human rights reputation slide and, with it, its chances of getting into the European Union. Relations with Germany, where the PKK collects millions of dollars annually from expatriate Kurds, have long hinged on the attitude adopted by German courts to the PKK.

Even before Mr Ocalan arrived in Rome from Moscow, Kurdish issues had inflamed Turkey's relations with Italy, which recently allowed the "Kurdish parliament-in-exile", a PKK front, to meet in Rome's parliament building. All this explains Turkey's elation when they heard of Mr Ocalan's arrest. Their desperation to get him is measured by the government's readiness to scrub capital punishment from its statute books, erasing one possible Italian objection to his extradition. With the autocratic and inspirational Mr Ocalan behind bars, Turkey hopes the PKK, weaker militarily than it has been for some years, will collapse.

But the Kurdish sym-



Abdullah Ocalan: leader of Turkey's Kurdistan Workers party

thies of Green and Communist members of the coalition of Massimo D'Alema, boosted by the recent convergence on Rome of thousands of Europe-based Kurds, has made many Turks fearful. Should Italy accept Mr Ocalan's asylum request, the PKK leader would have a perfect European base in which to replace his combat fatigues with a suit and tie, and transform himself into a statesman. That eventually was evoked by Musa Kaval, a member of the Brussels-

based parliament-in-exile, who said: "For years, Israel refused to talk to Arafat, and South Africa interned Mandela. Here, too, the time has come to hand diplomacy the initiative." This is what Turkey's generals want to hear least. With each fresh casus in the gorges of what the PKK refer to as northern Kurdistan, it becomes harder for the sort of weak coalition government currently in place to talk about even limited cultural autonomy for the Kurds.

Aircraft groups edge closer to merger

By Alexander Nicoll in London and David Owen in Paris

Six European aerospace companies yesterday told their governments they had reached "a wide measure of agreement" on issues surrounding the creation of a unified European aerospace and defence company.

However, their confidential report fell short of the plan demanded by ministers in July and was seen in the industry as a holding measure designed formally to meet the governments' request while negotiations continue between companies on possible mergers or alliances.

The report was submitted by the four Airbus consortium partners - Aerospatiale of France, British Aerospace (BAe), Construcciones Aeronauticas (CASA) of Spain and DaimlerChrysler Aerospace (Dasa) of Germany - and Finmeccanica-Alenia of Italy and Saab of Sweden, in which BAe holds 35 per cent.

Following demands for a cross-European rationalisation from the British, French and German governments last December, the Airbus partners agreed earlier in the year on the principle of uniting into a single aerospace and defence company big enough to challenge American rivals. The company would have a single management. The discussion process has since widened to include the Spanish, Italian and Swedish governments and companies. The six governments are working to remove export controls, pool research spending and harmonise procurement in order to facilitate industry rationalisation.

However, state ownership, especially in France, remains the biggest obstacle to a "big bang" merger of BAe, Aerospatiale and Dasa which would be followed later by the addition of the other companies. With no timetable set by France for full privatisation of Aerospatiale - though it is being partially privatised - BAe and Dasa have discussed a possible bilateral merger and a number of other potential deals are being mooted.

Saab said yesterday: "The next step will be for the governments concerned to discuss how several of the outstanding questions are handled. This includes, for instance, the state interests and research co-operation." The six companies said an integrated European Aerospace and Defence Company (EADC) was the "right target structure", and that their report addressed questions including "government rights and safeguards in EADC."

This is a key issue for France, which last week appeared to take a step in preparations for an EADC with approval by the Dassault Aviation board of the transfer of the state's 46 per cent stake in the group to Aerospatiale. Dassault, which makes Rafale and Mirage fighters, has not been a part of EADC discussions. Last week's move has not entirely removed doubts about the attitude towards rationalisation by Serge Dassault, head of Dassault.

NEWS DIGEST

STATE AID INQUIRY

Brussels to investigate east German shipyard

The European Commission will next week start a formal state aid inquiry into the Warnow Werft shipyard in east Germany in spite of pleas by the German government to reconsider. The yard, owned by Kvaerner, the Anglo-Norwegian construction and engineering group, has exceeded the capacity limits imposed under a 1992 deal, which allowed aid to be given to Warnow provided it stuck to strict production ceilings.

According to European Union officials, Warnow is likely to produce more than 100,000 compensated gross tonnes this year, 15,000 tonnes over capacity. At a meeting of industry ministers in Brussels yesterday, Germany argued the increase in production was temporary and linked to an order for an offshore oil platform which has to be completed by 2001. It also argued that from 1998-2001, average production was likely to be around 67,000 tonnes - well below the 85,000 tonnes capacity limit. Other member states said they sympathised but insisted the 1992 agreement had to be adhered to. Emma Tucker, Brussels

CREDIT LYONNAIS

Price due for clause

The European Commission will tomorrow set a price of FF15.5bn (\$2.7bn) for the sale by Credit Lyonnais, the troubled French bank, of a penalising loan and profit participation clause.

The clause was imposed by the European Commission under the bank's original 1995 rescue plan, and stipulated that Credit Lyonnais had to pay a substantial proportion of its profits back to the state. This was considered necessary to ensure that profits made by the bank as a result of its bail-out by the French government would not be used for further expansion.

Cancellation of the clause was necessary ahead of the bank's privatisation next year. The clause will in effect be sold to EPFR, a government entity set up to help rescue the bank. An evaluation carried out by Arthur Andersen suggested a price of FF19bn. Emma Tucker, Brussels

KOSOVO DISPUTE

Talks offer turned down

Kosovo Albanian leaders and western mediators have turned down an offer by the Serbian government to renew direct talks tomorrow. They said nothing could come of such a meeting and questioned Belgrade's sincerity.

Milan Milutinovic, president of the Serbian republic, issued the invitation on Saturday, saying only dialogue and political means could settle the conflict in the Serbian province. Fehmi Agani, a senior adviser to Ibrahim Rugova, leader of the main Kosovo Albanian party, said the two sides were too far apart for face-to-face talks but that indirect negotiations would continue with the mediation of Chris Hill, US envoy. Mr Hill, invited by Belgrade to attend the talks as a "guest" but not as a mediator, had prior engagements in Vienna and would not join Mr Milutinovic in Kosovo, a US diplomat said.

The only direct contact between the two sides in May achieved nothing. It was soon followed by a government offensive against ethnic Albanian villagers harbouring pro-independence rebels. Guy Dinmore, Belgrade

CZECH ELECTIONS

Rebuff to Social Democrats

Czech voters in municipal and Senate elections delivered a rebuff to the minority Social Democrat government at the weekend, underlining the precariousness of its position.

In the first round of voting for the 27 Senate seats up for re-election, Social Democrat candidates led in only three constituencies and went through to a run-off next week-end in 15. The Civic Democrats of former premier Vaclav Klaus led in 13 and went through in 22. A coalition of four centre-right parties led in 10 and progressed in 14.

In the municipal elections, the Social Democrats won 17.5 per cent of the vote against 24.3 per cent for the centre-right Civic Democrats and took only 7 per cent of the seats. The Civic Democrats led in all the big cities and in every district in Prague.

The Social Democrats formed a minority government after general elections in June. The two parties have agreed to examine changing the electoral system to make it easier for bigger parties to win a majority. The run-off elections for the upper house will be closely watched because if, as looks likely, the two big parties hold 12 seats, they would have the three-fifths majority needed to push through such changes. Robert Anderson, Prague

AIR FRANCE

Cabin crew to strike

Air France flights are expected to be seriously disrupted by a two-day cabin crew strike, which begins today. The airline, due to be privatised next year, has warned passengers that 45 per cent of long-haul flights and 40 per cent of short distance and domestic flights are likely to be cancelled.

The disruption will affect both Orly and Roissy airports in Paris. The strike has been prompted by demands to change the system of work rosters and to end a two-tier pay scale that penalises new employees. In June, pilots caused losses of over FF1.2bn (\$211m) by a crippling strike over cost-cutting moves. Robert Graham, Paris

FRANCE CALL FOR 60,000 'SANS-PAPIERS' TO BE ALLOWED TO REMAIN

Let immigrants stay, say Greens

By Robert Graham in Paris

France's Green party has broken ranks with the government's immigration policy, calling for some 60,000 illegal immigrants to be allowed to remain in the country.

The call was made over the week-end by Dominique Voynet, the Green's minister of environment, who told a party congress: "I am being neither cynical nor naive when I say those without their papers in order must be allowed to regularise their position: this is being generous and realistic."

This call was backed by Daniel Cohn-Bendit, the charismatic May '68-era student leader, who at the weekend was adopted as the Green's leading candidate in next year's European parliamentary elections.

Their comments provoked a hostile reaction yesterday

Monaco court confirms money laundering sentence

Monaco appeals court yesterday confirmed a 12-year prison sentence on Moshe Binyamin, an Israeli citizen, for laundering drug money, writes Robert Graham in Paris.

It was the first money laundering case to come before the principality's courts, largely staffed by French judicial personnel, under legislation passed in 1993. In addition to the prison sentence, Mr Binyamin was also fined

FF100,000 (\$17,650) and had \$5m worth of assets confiscated.

Mr Binyamin, Italian-born with residence in the Netherlands, was arrested in 1995 after he had tried to deposit \$5.5m in cash at the Edmond de Rothschild bank in Monaco. In the 1980s he had fallen foul of the authorities in both Bolivia and Brazil for drugs trafficking offences.

The judicial investigation strained relations between

the French justice ministry and the principality over how to treat the affair which threatened to damage the name of Monaco offshore banking.

According to Le Monde, Gaston Carrasco, Monaco's chief public prosecutor, sought at one stage to have a young investigative judge removed from the case. But the French justice ministry threw its weight behind the prosecution of Mr Binyamin.

their situation.

The government ruled out a full-scale amnesty, aware this would set a precedent.

Under new regulations introduced in June 1997, some 140,000 people applied to stay in France either on the grounds of family unification, political persecution in their country of origin, or long stay.

The bulk of these applications have been processed and the interior ministry has let it be known about 80,000 applications are expected to be approved.

Since the summer both the Greens and the Communists have been pressing Mr Jospin to allow even those whose applications have been refused to stay in France.

They argue the system of enforced repatriation is inhumane and expensive.

Air France pilots are already boycotting repatriation flights.

German prices fall further

By Ralph Atkins in Bonn

Further evidence of the downward pressure on prices in Germany emerged yesterday, with official figures showing wholesale prices fell by 4.7 per cent in the year to October - the biggest year-on-year drop for more than 11 years.

The decline could feed through to further reductions in the coming months in Germany's annual inflation rate, which dropped to 0.7 per cent in October. With inflation in France also at an exceptionally low level, recent trends in German prices have triggered fears that the core of the European economy might be on

the verge of deflation.

Germany's wholesale price index, as compiled by the federal statistics office in Wiesbaden, has shown year-on-year drops in every month since April but the rate of fall has accelerated in recent months. August and September saw drops of 3.5 per cent and 4.2 per cent respectively compared with the same month a year before.

The virtual eradication of inflation in Germany has encouraged Oskar Lafontaine, finance minister, to call for monetary, as well as fiscal and wage policies to be targeted at encouraging economic expansion and job creation.

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NOTICE OF MEETING

Dear Shareholder,
We have the pleasure of inviting you to attend the Annual General Meeting of shareholders, which will be held on December 3, 1998 at 11.00 a.m. at the registered office at 47 Boulevard Royal, L-2449 Luxembourg, with the following agenda:

1. Presentation of the reports of the Board of Directors and of the Auditor.
2. Approval of the balance sheet, profit and loss account as of September 30, 1998.
3. Discharge to be granted to the Directors for the financial year ended September 30, 1998.
4. Action on nomination for the election of The Hon. J. Ogilvy, André Elvinger, Roberto Soler, Karen Clarke and Uday Khanna as Directors and PricewaterhouseCoopers as Auditors for the ensuing year.
5. Any other business which may be properly brought before the meeting.

The shareholders are advised that no quorum for the date of the agenda is required, and that the decisions will be taken at the majority vote of the shares present or represented at the Meeting. Each share is entitled to one vote. A shareholder may act at any Meeting by proxy.

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Direct to the top.

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FINANCIAL TIMES
No FT, no comment.

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Airports urged not to raise charges

By Jonathan Ford

Airport operators in Denmark and Ireland have come under fierce pressure from airlines not to raise landing charges next year to offset lost income when duty free retailing is abolished within the European Union.

In Ireland, a group of airlines led by Aer Lingus and Ryanair is appealing to the government to prevent Aer Rianta, the state-owned airport authority, from implementing a plan that could, they said, sharply increase landing charges.

A similar situation has arisen in Denmark, where AS and Maersk Air are asking to refer a 15 per cent increase at Copenhagen airport to the Danish competition authorities, arguing that it should be subject to public scrutiny.

Aer Rianta and Copenhagen Airports, the privatised Danish group, are among the first operators in the EU to signal increases in landing charges to take account of the expected loss of duty free sales.

Although Aer Rianta is not raising charges, it is ending a scheme under which airlines received large rebates on new scheduled services from its airports. Airlines said the ending of the widely-used scheme would substantially increase their costs.

European carriers expect a rash of copycat increases as the July 1 deadline set for abolition by EU finance ministers looms. In the UK, BAA's three London airports have been given permission by their regulator, the Civil Aviation Authority, to raise landing charges by 15 per cent over two years.

Airlines are becoming militant about opposing increases because of concerns over rising costs at a time when airline traffic growth is slowing within the EU. Intra-European airline traffic, which increased by 10.2 per cent in 1997, is expected to grow by 8.8 per cent this year before slowing to 6 per cent growth in 1999, according to Salomon Smith Barney, the US investment bank.

Higher landing charges represent a particular headache for the low cost airlines, which have sprung up to take advantage of last year's liberalisation of the EU aviation market.

This is because such charges represent up to 10 per cent of their overall cost base, far higher than for conventional carriers.

"A lot of the growth in intra-EU traffic has been coming from the low cost operators starting new routes," said Michael O'Leary, chief executive of Ryanair. "It is commercial lunacy for the airports to penalise us by raising landing charges."

Intra-EU duty free sales are estimated to be worth about £600m (£1.5bn) and some regional airports rely on them for up to 40 per cent of their income, according to a study by Cranfield University.

Copenhagen Airports has written to carriers saying next year's proposed 15 per cent increase may not be the last. It is considering a further 15 per cent rise in 2000.

MOTOR INDUSTRY 'NO ECONOMIC REASONS FOR SALES TO SLIP'

Market for new cars falters in October

By John Griffiths

Western Europe's strong new car market growth this year faltered in October. But leading motor industry executives continue to insist that there are no sound reasons for the market to slip into recession.

Statistics released by the Western Automobile Manu-

facturers Association (ACEA) show that total new car registrations last month in the 17 countries of the region were 1,172,078, up only 1.1 per cent year on year and well below the 5-10 per cent growth recorded in earlier months.

This lifted registrations for the first ten months of the year to 12,276,164 - up more

than 6 per cent on the same period of 1997 and above the industry's predictions of around 3 per cent growth at the beginning of the year.

Both Sir Alex Trotman, the retiring chairman of Ford, and John Smith, General Motors' chairman, stressed during European visits recently that they believe there are no economic reasons for markets in either western Europe or North America to weaken over the next year. "The only reason for a recession would be if we were determined to talk ourselves into one," said Sir Alex.

Despite ACEA describing last month's slowdown as "significant", its figures show that the ending of government new car purchasing incentives in Italy is by far the biggest factor for the slowdown. Italy's registrations were down 33.6 per cent year on year at 175,600 last month. Italy has been having a big impact on the total registration figures because the incentives have turned it into Europe's second largest market, behind Germany but above France and the UK despite last month's drop in registrations.

Registrations fell in five other markets in the region last month, but with the exception of the UK, down 0.9 per cent, they were among the region's smallest. In contrast, Spain, the region's fifth largest market, was up 30 per cent.

Volkswagen is continuing to strengthen its grip as the market leader. It captured a record 18.5 per cent of registrations last month, more than seven percentage points clear of General Motors, its closest rival.

IMF REVIEW BERN URGED TO HARMONISE DEFINITIONS AND RULES

Swiss tax system seen as inefficient 'jungle'

By William Hall in Bern

The International Monetary Fund has urged Switzerland to reform its tax system to reduce inefficiencies arising from the differing corporate and income tax systems of the country's 26 cantons.

The IMF, in its latest review of the Swiss economy, described Switzerland's taxation system as a "jungle". It criticised a lack of harmonisation of tax rules across the Swiss Confederation, including different definitions of income tax bases and corporate tax schedules, and different deadlines for tax collection.

The problem was highlighted last year when Martin Ebner, Switzerland's best-known corporate predator, transferred the headquarters of his BZ Bank from the centre of Zurich to a small village in the neighbouring canton of Schwyz, to cut his tax bill. The differing timing of tax payments in the two cantons meant that BZ Bank was accused of

escaping paying tax on its 1997 profits to either canton. The IMF said the differing tax systems resulted in "high economic costs". The decision to harmonise personal income tax collection on a current-year basis by 2001 was "most welcome" as it would strengthen automatic fiscal stabilisers and enhance real revenue collections. However, new initiatives to promote the convergence of income tax base definitions were also urged.

The IMF said Switzerland should make the reform of sheltered sectors of its economy an "urgent priority". Overall protection in the agricultural sector remained "exceptionally high".

While welcoming Switzerland's efforts to balance its budget by 2001, the IMF noted that an ageing population and other pressures on social spending would result in a "difficult uphill battle to contain fiscal deficits".

The IMF expects Switzerland's gross domestic product to slow from a growth of

just over 2 per cent in 1998 to 1.5 per cent by 1999, before picking up again in 2000. It notes that the short-term inflation outlook is "benign" with consumer prices growing by 1 per cent next year, mainly due to a scheduled increase in VAT.

Swiss banks have become less popular, according to an opinion poll carried out on behalf of the Swiss Bankers' Association, which found that only 37 per cent of the 1,009 Swiss people polled believed the banks contributed to Switzerland's good reputation in the world. This compares with 78 per cent in 1995.

The number of Swiss with a positive or very positive view of Swiss banks fell from 64 per cent to 48 per cent over the same period. The poll was conducted in July, ahead of the announcement by UBS and Credit Suisse, the two biggest banks, that they would pay up to \$1.25bn to settle US class actions launched by Jewish Holocaust survivors.

Bankers wary of softer stability pact

'Golden rule' proposal is causing concern, writes Wolfgang Münchau

Europe's central bankers are increasingly concerned about plans mooted by key governments in the future euro-zone to soften the stability and growth pact. It is a calculable concern.

The pact, inspired by the previous German government, aims to eliminate structural deficits and bring public debt on to a sustainable trend. It imposes fines - subject to a political vote - on countries whose budget deficits exceed 3 per cent of gross domestic product, except in the case of a severe recession.

The pact is now part of European Union law, but EU law is hardly ever straightforward. Mario Monti, the EU's internal market commissioner, last month proposed to apply an economic interpretation to the pact - the so-called golden rule - that would distinguish between spending and capital investment. Under this rule, governments would be able to incur structural defi-

Economic indicators for euro-11 countries

	Sep 1998	Aug 1998	Jul 1998	Jun 98	May 98	Apr 98	1997	1996
Inflation (annual % change)	1.0	1.2	1.4	1.4	1.4	1.4	1.5	2.2
Unemployment (%)	10.9	11.0	11.0	11.1	11.2	11.3	11.6	11.6
Trade (Bn US\$)								
Exports	n/a	n/a	71.6	80.7	85.6	83.2	760.8	667.7
Imports	n/a	n/a	58.4	61.4	57.0	60.2	571.4	584.2
Trade balance	n/a	n/a	13.1	19.3	28.6	23.0	89.4	73.5
Industrial production (%)								
(3 mo over previous 3 mo)	May-Jul/	Apr-Jun/	Mar-May/	Feb-Apr/	1997	1996		
	Feb-Apr	Jan-Mar	Dec-Feb	Nov-Jan				
	1.0	0.9	1.3	1.4	4.17	0.07		
GDP growth (%)								
Over same quarter last year	Q2 1998	Q1 1998	Q4 1997	Q3 1997	1997	1996		
	2.4	3.8	2.2	2.8	2.5	1.6		

n/a Not available. * Estimated. † Estimated due to holiday. For other countries where numbers for 1995 and 1996 were used to calculate the monthly rates. ‡ Annual % change. Source: Eurostat



ECB watch

cits for capital investments, but not for current spending. Given that a structural deficit is loosely defined as the average deficit across the business cycle, this would in effect mean raising the acceptable floor for budget deficits euro-zone governments will be able to run from 0 per cent.

Not surprisingly, Mr Monti's ideas have been warmly received by Europe's social finance ministers, including Oskar Lafontaine of Germany, France's Dominique Strauss-Kahn, and most recently, Carlo Azeglio Ciampi of Italy - the country at which more than any other, the stability pact was directed.

Mr Monti does not suggest the pact be re-written. He merely says politicians should take the golden rule into account when deciding whether to impose fines. Investment spending typically accounts for at least 2 per cent of gross domestic product in most countries. If a golden rule were applied in full, governments would therefore be able to incur



Mario Monti: his ideas have been warmly received

structural deficits of 2 per cent or more throughout the business cycle.

Actual deficits tend to deteriorate in times of economic slowdown because of falling tax revenues and higher spending on unemployment benefits. The automatic stabilisers - the fluctuation margin around a structural deficit during an economic cycle - accounts for a maximum of about 2 percentage points of GDP in either direction. This means if a government runs a structural deficit of 2 per cent, the actual deficit will deviate between 0 and 4 per cent during the economic cycle, although usually in a smaller band.

Deutsche Bank Research estimates that the average 1998 structural deficit for the euro-zone is currently around 1.5 per cent. This means that several governments would exceed the 3 per cent ceiling in the next downturn and risk being fined. Such a risk would be much reduced under a golden rule policy.

The new European Central Bank is concerned about austerity fatigue and could respond to any loosening of the stability pact - and therefore of fiscal policy in the euro-zone - by running a relatively tight monetary policy. While the ECB will not be able to raise interest rates because of the international situation, it may be discouraged from cutting interest rates further.

The consequence of this policy mix could be a relatively strong currency and a falling current account surplus - not an ideal policy mix for the start of economic and monetary union.

New euro payments system

By George Graham, Banking Editor

The first euro payments system went live yesterday, when the Euro Banking Association switched its system for settling Ecu over to a new network designed to handle 40 per cent of cross-border euro payments.

Until January 4, the EBA system will still be settling the Ecu currency basket, averaging about 7,000 payments worth Ecu50bn-Ecu60bn (\$58bn-\$68bn) a day. The new system is designed to handle around 300,000 payments a day, and has been tested at volumes of up to 60,000 payments an hour.

The main systems change still to be made before the launch of the euro next year is to alter the currency code in the EBA's electronic messages from XEU for the Ecu to EUR for the euro.

While banks are expected to send many of their high-value payments through the Target payment system operated by the European Central Bank, the EBA network offers a cheaper alternative for less urgent payments.

Target is a real-time gross settlement system, in which payments are simultaneously debited from the payer's account and credited to the recipient's account. EBA, on the other hand, is a net settlement system, in which member banks top up their payments through the course of the day and settle their net balance.

This is generally cheaper because it does not require a bank to put up so much cash for payments during the day.

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Yoshikazu Hanawa, President of Nissan Motor Co., Ltd.

In the European market, more than 2,500 companies from all over the world have chosen Barcelona as their center of operations. No city in the South of Europe can offer a concentration of economic and logistic activities in so small a territorial space. In just 5 kilometers, Barcelona's urban area includes a container traffic in the western Mediterranean, the airport (since 1994, with the greatest growth in Europe), the main highway, the main railway station, the exhibition halls and the principal wholesale markets for food and perishable products. All this, together with the international network of connections with Europe and the rest of Spain, makes Barcelona the European city with the greatest growth in the last decade. It is one of the most ideal for investment and business development. Welcome to Barcelona, Welcome to the South of Europe.

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WORLD TRADE

BANANA DISPUTE WASHINGTON MAY JOIN ECUADOR IN SEEKING SETTLEMENT THROUGH WTO

US set to step back from confrontation

By Frances Williams in Geneva

A sign that the US may be backing away from its threat of retaliation over the European Union's banana import regime came yesterday when Ecuador, one of Washington's co-complainants at the World Trade Organisation, took the first step towards reconvening the WTO panel on the banana case.

Ecuador asked for WTO consultations with the EU on its new banana import

arrangements, introduced after WTO panel and appellate body rulings that the previous system unfairly discriminated against Latin American producers.

Trade officials said yesterday they expected the US to join in any panel proceedings to decide whether the EU's new arrangements comply with WTO rules. Brussels has already said it would agree to establishment of a reconvened panel. The EU has been given until

January 1 1999 to bring its banana import regime, which favours bananas from African, Caribbean and Pacific (ACP) nations, into line with international fair trade rules. However, the US and the five Latin American countries that brought the original WTO complaint say the new system is as discriminatory as the old.

This is the first case in which compliance has been disputed and it takes the WTO into uncharted legal

waters. WTO rules say that arguments over compliance should be settled through the disputes system, if possible by reconvening the original panel which would have to report within 90 days.

The US originally sought a panel last summer but this was refused by the EU which said it would have to wait until new licensing arrangements were agreed in October.

Frustrated by continuing delays Washington subse-

quently said it would bypass the panel procedure and apply to the WTO for permission to retaliate once the January 1 deadline had passed. However, the prevailing view of legal experts is that this would be illegal in the absence of a WTO ruling that the EU is still breaking the rules.

Last week, the US government increased the tension by publishing a preliminary list of imports from the EU worth over \$1bn on which it

may impose 100 per cent duties. Brussels has responded by threatening a WTO case if sanctions are imposed.

Trade law experts say the US would not lose much time in opting for an expedited panel procedure rather than acting outside WTO rules. If the EU's new banana import scheme is judged illegal by a panel, the US would then be entitled to impose compensating trade sanctions.

WorldCom uses quirk in rules

By Alan Cane in London

MCI/WorldCom, the acquisitive US telecommunications group, is increasing its market share at the expense of profits by exploiting a quirk of US telecoms regulation.

It is charging its US customers less than the cost of delivering their calls to foreign destinations because, according to the rules, the more traffic it sends overseas the more inbound calls it is entitled to deliver in the US.

Recent figures show the company makes a substantial profit on its inbound business while its willingness to take a loss on outbound traffic means it can significantly undercut its competitors, including AT&T and Sprint, in long distance services.

The strategy represents a significant departure from conventional telecoms practice. WorldCom ends up with lower overall profitability than would be the case if it used conventional charging methods, but gains significant market share.

WorldCom's strategy emerges from the 1999 issue of TeleGeography, an authoritative US publication. It shows that in 1997, WorldCom lost \$21.8m on outgoing international calls. It collected \$600m from its US cus-

tomers for the calls, but paid foreign operators \$521.8m for delivering the calls overseas.

However, it received \$155.8m from overseas carriers for delivering their calls in the US, giving it net revenues of \$14m. By comparison, AT&T, the largest US long distance carrier, received \$8.1m from its customers and paid foreign operators \$3.7m for delivering their calls. It received \$1.3bn from foreign operators giving it net revenues of \$5.63bn for the year.

US regulatory policy, however, stipulates that US carriers are entitled to handle incoming calls based on the proportion of US outgoing traffic they originate. WorldCom charges foreign operators 31 cents a minute for calls which cost it only a few cents to deliver.

WorldCom said yesterday that it would no longer separate incoming and outgoing payment figures except for the purpose of making regulatory returns. The company looked at its incoming and outgoing network costs as a whole and it was these costs on which it based its prices to customers.

The most recent quarterly results for WorldCom and AT&T saw international revenues surge 32 per cent for WorldCom while AT&T's long-distance business fell by 8.7 per cent.

P&O's Indian harbour plans halted by protests

By Charles Batchelor, Transport Correspondent

P&O, the shipping and ports group, has shelved plans to develop a \$310m (\$515m) harbour on an ecologically sensitive coastline in India following protests by environmentalists.

P&O Ports said it would not be going ahead with the development at Vadavan, 75 miles north of Bombay in the state of Maharashtra, because the local environmental protection authority had vetoed it and because of doubts about raising finance.

WWF-UK, part of the World Wide Fund For Nature, which has campaigned against the project, said: "P&O's climbdown should send a strong signal to multinationals that investments which undermine the principles of sustainable development will not be tolerated."

The port would have destroyed one of the last wildlife havens on the west coast of India and would have ruined the livelihoods of the fishing communities and the indigenous Warli people, WWF said.

P&O had proposed the construction of an all-weather port providing eight berths initially, but with capacity to expand to 30 later. It would have been capable of handling 250m tonnes of cargo with facilities to receive oil, coal and cement, and a passenger terminal.

WWF said local fishermen, indigenous people's organisations and dockworkers in Bombay had all campaigned against the project.

P&O, which had invested "several hundred thousand dollars" in a feasibility study, said the port would



have ended transshipments of power station coal which was damaging the coast. The project appears to have been halted after intervention by the independent Dahanu Taluka environment protection authority.

POLISH DEFENCE CONTRACT DASA AND BAE OFFER AIR FORCE UPGRADE

Europeans counter US offer

By Christopher Robinson in Warsaw

British and German aerospace companies, backed by their governments, yesterday offered Poland a programme to upgrade military aircraft and train personnel. The joint bid is regarded as a counter offer to that made by the US to lease fighter aircraft to Poland in the run-up to its Nato entry next April.

The Polish air force is bedevilled by a lack of spare

parts and shortage of funds for new aircraft. This means pilots are unable to put in the flying time required by Nato for training. Morale was further hit last week when two pilots flying a training aircraft crashed.

The "European" proposal sees Daimler Benz Aerospace (Dasa) together with Russian partners offering to upgrade the 22 MIG 29s which Poland has to bring up to Nato standards in time for its entry. At the same time, the Swedish airforce would allow Pol-

ish pilots to fly their Grip-pen aircraft. This is the fighter which Saab and British Aerospace are hoping to sell to Poland. Britain's Royal Air Force meanwhile, would provide Polish pilots with English language training and Nato flying experience in bases in the UK.

Bae are also hoping to sell or lease Hawk trainer craft to Poland. These would be assembled locally. The programme involves the local manufacture of engines and components for any future

military aircraft Poland might buy as well as components for other Bae products. Poland's defence industry desperately needs new orders to survive.

The US offer is to lease Poland F-16 fighters to fulfil Warsaw's Nato obligations. If Poland took up the US offer, its ground installations would have to be adapted and personnel trained to service the aircraft. The European companies fear this would result in Poland eventually opting to buy F-16s.

NEWS DIGEST

CHINESE RAILWAY CONSTRUCTION

Beijing opens industry to rise in foreign investment

China plans to open its railway industry to further foreign investment, counting on RMB10bn (\$1.2bn) worth of overseas funds for railway construction over the next five years.

Foreign companies offering advanced technology and managerial experience will be approved to set up wholly foreign-owned enterprises or Sino-foreign joint ventures. Total investment in railway construction over the next five years is expected to be around RMB350bn.

By the end of last year, roughly 4 per cent of foreign investment - or \$5.17bn - had gone into railway construction, according to a report in the China Economic Times. As part of China's efforts to upgrade infrastructure and improve transport of goods and people, Beijing has announced plans to boost spending on railway construction to RMB45bn this year compared with RMB34.9bn in 1997. James Harding, Shanghai

THAI NEW VEHICLE SALES

First increase since crisis

New vehicle sales in Thailand during October showed their first year-on-year increase since the country's economic crisis began, figures released by Toyota indicated yesterday.

A total of 12,805 new vehicles were sold in October, 0.2 per cent up on the same month a year earlier, and a 23.2 per cent rise from September figures. Car sales in Thailand are a main indicator of economic health, consumer confidence and the financial strength of the non-bank financial sector which extends hire purchase loans. Government economists see the flattening out of vehicle sales as one indicator that the economy is bottoming out.

New vehicle sales are still down 66 per cent year-on-year for the period January to October at 112,808 units. Passenger car sales continue to show weakness, dropping 29 per cent year-on-year in October. But strong sales of commercial vehicles and especially one-tonne pick-up trucks, up 16 per cent and 24 per cent respectively, helped push October's increase. Ted Bardecke, Bangkok

INTEL EXPANSION

Chipmaker eyes eastern Europe

Intel, the world's largest semiconductor manufacturer, is examining the long-term possibility of setting up a chip manufacturing facility, or "fab" in eastern Europe or the Baltic states.

The California-based group, whose microprocessors power most personal computers, already has chip-manufacturing operations in Ireland and Israel and generally prefers to expand existing facilities than build on new sites. But both the Ireland and Israel facilities have already been expanded - Intel's second "fab" in Ireland produces the latest generation of its Pentium II microprocessors.

As the North American and west European PC markets begin to mature, PC manufacturers and component makers are looking increasingly to regions such as eastern Europe, Latin America, India and China to grow more quickly. Paul Taylor, London

"Engines have been my passion since I was a child. I looked at them, listened to them and dreamed of the day when I would build one completely different to all others. Now that we have created the most innovative engine I look at it and think that what made it possible wasn't just the technology but also a little bit of my dream."



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MICROSOFT CASE CHIEF EXECUTIVE DISPUTES WHETHER INTERNAL E-MAILS REPRESENTED COMPANY STRATEGY TOWARDS NETSCAPE

Gates denies concern over competition

By Richard Wolfe
in Washington

Bill Gates, chief executive and founder of Microsoft, attempted to distance himself and his company from the fierce competition over Internet software with Netscape Communications, a court heard yesterday.

In combative and often evasive exchanges with US government lawyers, Mr Gates disputed the meaning of internal e-mails from his senior executives and whether they represented company strategy towards Netscape.

He also denied the sugges-

tion that he was concerned by competition with Netscape when he wrote about the importance of winning market share in Internet software in an internal e-mail in 1996.

Mr Gates' pre-recorded evidence was played on video tape at the start of the fifth week of the Microsoft monopoly trial. Mr Gates was interviewed by government lawyers at Microsoft's headquarters this summer, but has not been called to appear in court as a witness.

The US justice department and 20 states accuse the world's biggest software company of abusing its

monopoly power over the computer industry in order to crush its rivals. In particular, Microsoft allegedly sought to force Netscape out of the market for Internet browsers, which allow computer users to read pages on the world wide web.

In his video-taped deposition, Mr Gates appeared keen to deny that browsers represented a different software market from other products, in spite of an e-mail reference by a senior executive to fighting a "jihad" over browsers.

The issue goes to the heart of whether Microsoft violated US antitrust laws by

extending its monopoly in Windows - the operating software which drives more than 90 per cent of the world's computers - into the Internet browser market.

Microsoft has now integrated its browser with Windows to create one seamless product, which the company says benefits consumers by improving its core software.

However, according to a January 1996 e-mail to his executives, Mr Gates treated the browser as a separate market, saying: "Winning Internet browser share is a very, very important goal for us."

Mr Gates denied the e-mail was a reference to

competing with Netscape. Asked if he was concerned by other browser companies, he said: "I don't know what you mean 'concerned'."

In another e-mail less than two weeks later, Mr Gates was determined to prevent Netscape from winning America Online (AOL), the largest Internet service company in the world, as a customer. "We need to look carefully at any significant opportunity to gain share vs Netscape, and think carefully before AOL goes off and partners with Netscape," he wrote.

AOL has already testified in court that it finally part-

nered with Microsoft, not Netscape, because Mr Gates offered it a prominent position within Windows, and offered to pay marketing costs worth "tens of millions of dollars".

On video, Mr Gates rejected the suggestion in an e-mail from Paul Maritz, Microsoft's senior strategist, that winning browser market share was the company's "number one goal".

"He doesn't set the company-wide goals," Mr Gates said. "I remember that we agreed that it was an important goal. I'm not sure which one of us reached that feeling before the other."

US interest rate cut is less of a certainty

By Gerard Baker in Washington

Members of the US Federal Reserve's policy-making open market committee meet today in rather different economic circumstances from those in which they last gathered at the end of September.

Seven weeks ago, the turmoil in international financial markets was at its peak; stock markets were tumbling, currency rates were see-sawing, and strange and awful things were happening in credit markets.

The Fed responded, not only by cutting the Fed funds target rate, its key short-term interest rate, by a quarter of 1 percentage point at that meeting, but by repeating the dosage two weeks later in a rare interest rate move that pleased financial markets.

Subsequently, (Fed officials might say, consequently) the turmoil has dissipated. Stock prices are back within striking distance of their peaks of this summer.

The dramatic widening of spreads between relatively safe, liquid instruments, and riskier, illiquid assets, one of the most troubling features of the recent turmoil, is gradually being undone. And international markets have stabilised after positive developments in Japan, Brazil and elsewhere.

Now that conditions have improved so dramatically, will the Fed go back to policy auto-pilot and leave rates on hold at today's meeting? Not necessarily.

Two concerns linger among policymakers. First, there are continuing fears that, for all the gradual loosening of the ligatures on domestic financial markets in the last month, things have not quite returned to normal and investors remain nervous about international risks.

Secondly, whatever happens in credit markets, several of the Fed's leading policymakers believe that the much feared, but as yet elusive broader US economic slowdown, may now genuinely be around the corner.

Financial markets certainly look in better shape than they did a few weeks ago. The Fed's specific con-

cern, that investors were, in Alan Greenspan's words, "disengaging" from markets, avoiding anything risky, and opting for safety and liquidity, has eased. With the recovery in stock prices, borrowers and lenders are meeting again on a much more equal footing in financial markets.

Mickey Levy, chief economist at Nations Bank in New York, says new issues of securities by his company have soared in the last three weeks, and are expected to continue to be buoyant for the rest of the year.

"Markets are still fragile but they are clearly repaying the damage earlier this year," he says. "Given that financial markets were the Fed's concern, I don't think they should cut rates now," he adds.

But while the difference between the yield on risky assets and riskless instruments has narrowed, it has not completely disappeared, and some Fed officials may still be wary of declaring an end to the crisis.

Yet even if financial conditions no longer warrant the kind of aggressive easing that seemed imminent just a few weeks ago, some economists believe the broader economic picture justifies a further interest rate cut.

For more than two years the US economy has defied all expectations and continued to grow at an unusually strong pace - almost 4 per cent a year. Once again economists are forecasting a sharp slowdown for the next year.

Personal savings in the US are now negative; a factor likely to slow consumption growth. Meanwhile, business investment, the other big contributor to growth in the last few years, is also likely to slow as profits are squeezed.

Whatever happens today, one thing has clearly changed. The widely expected, sustained and aggressive easing by the Fed, so confidently forecast just a few weeks ago, is now no longer a certainty. If Mr Greenspan and his colleagues do move today, they are likely to want much clearer evidence of a slowdown over the next few weeks before they cut again.

On the web today

- Letter from Los Angeles ● Cost of mutual fund investment falls ● Bank of Canada lowers forecast
- Investment in Trinidad ● Ecuador nears IMF deal

<http://www.ft.com/americas>

Pinochet's detention continues to expose fault lines in Chile's society

Attitudes to the former dictator are defined by age and class, writes Imogen Mark

A lone van driving through Las Condes, Santiago's rich neighbourhood, with a large Chilean flag and a portrait of "my general" at the weekend raised a chorus of cheers and friendly hooting from the onlookers and other drivers.

"My general," Chile's former dictator Gen Augusto Pinochet, meanwhile languishes in a London clinic, waiting to hear whether the House of Lords, Britain's highest legal authority, accepts his claim to diplomatic immunity as a former head of state.

It does not, he faces extradition to Spain for questioning about his role in the torture and murder of his political opponents during his years in power.

But while his supporters have taken to the streets, at least in their strongholds in uptown Santiago, to protest against his detention, his opponents express their views more discreetly. They watched their words and bit their tongues during the 17

years of his dictatorship, and the habit dies hard, even after nearly nine years of democracy.

So the jubilation over his detention is expressed in cautious code. At a social gathering last week someone proposed a toast "To the 36 days!" - the number of days the general had by then spent in detention. Most of the 70 guests jumped up and raised their glasses.

There is a fear of reprisals. The blacklists and political dismissals during the dictatorship are still a vivid memory, while the risk of physical attack is very real: several leftwing members of Congress, a well-known Spanish artist and other figures have received death threats and hate mail. The number of bomb threats has tripled, according to the police, although all have been hoaxes.

At a diplomatic reception last week a naval officer warned a leftwing journalist: "If anything happens to Gen Pinochet, if his health deteri-

orates, if he goes to jail, then there'll be violence, there'll be deaths here."

One upper-class young woman says: "I don't talk about the Pinochet crisis at parties, we all avoid the subject now. We say it's a bore, a drag, there's nothing to say, but I feel if we talk about it we will quarrel, and I'm afraid of getting into a fight."

Many of the pro-Pinochet demonstrators who have taken to the streets are teenagers from uptown private schools.

"Most of my classmates just repeat what they've heard at home. Their parents tell them Pinochet saved us from communism, he saved the country, so they go and burn British and Spanish flags and shout outside the embassies just like going to shout for a football team," says one student.

But for a slightly older age group the detention has sparked off real debate and reflection.

"For the first time politics has stopped being a taboo subject, and we talk about

the case at lunch, in the breaks - we talk about the issues of justice, and what is possible," says Maricarmen, a 23-year-old architecture student.

The hearing in the British House of Lords over the past two weeks, and the airing in the foreign press of the evidence against Gen Pinochet has had a big impact for her generation, she thinks. "If they all say, outside (Chile), that Pinochet was bad, then we know he must have been. And not even his own people, not even his lawyers, say he's innocent, that none of these things happened."

An even older age group - the 40 and 50 year-olds who lived through the leftwing Popular Unity government of Salvador Allende and then the dictatorship - are more ambivalent. Jaime Estévez, a former Socialist congressman, says: "I don't accept that Pinochet has diplomatic immunity. But I don't accept that Spain has the right to try him. He should be tried here."

There are a dozen cases outstanding against him for the "disappearance" of politi-



Gen Pinochet: as a senator he has parliamentary immunity

cal prisoners. But as another former congressman, Jorge Schaulsohn, points out, Gen Pinochet has parliamentary immunity as a senator, and "if a judge even tried to interrogate him, the army will shout, and that will be that".

Few Chileans think he will be brought to trial, or even interrogated by the Spanish judge who has brought the case. Most expect the British law lords to uphold an earlier court ruling, ensuring Gen Pinochet is released and back home within a couple of weeks at most.

Mr Estévez speculates that

Gen Pinochet himself might make some voluntary gesture of goodwill and reconciliation. "He could express some remorse for the suffering he caused. And he could instruct the army people involved in the 'disappearances' to say where and when the prisoners died, and where their bodies were dumped."

He admits, however, that such a gesture is unlikely - "It's not in Pinochet's nature".

It remains to be seen whether the weeks in detention have softened or hardened the general's will.

Cuba edges towards Paris Club debt accord

By Pascal Fletcher in Havana

Cuba, starved of external financing and squeezed by a fall in commodity export earnings this year, has stepped up consultations with its Paris Club creditors about the possibility of unblocking stalled debt rescheduling negotiations.

Diplomats in Havana said

there appeared to be a renewed willingness on the part of Cuba to seek solutions within the Paris Club for its foreign debt, which totals more than \$10bn. The debt is an obstacle to the island's efforts to gain access to development financing and attract more foreign investment.

The consultations seem to

have intensified following a visit to France in September by Carlos Lage, the Cuban vice-president, during which he met Francis Mayer, the Paris Club chairman. The contacts were being viewed as a positive development after more than a decade of stalled relations between Cuba and the Paris Club since 1986, when Havana

halted payments on most of its debt.

Since September, the debt issue has been discussed by the Cubans with several visiting delegations from Paris Club nations, including Japan and Britain. The latest discussions took place last week with the Spanish foreign minister, Abel Matutes, whose three-day

visit to Havana opened the way for a historic visit to Cuba next spring by King Juan Carlos of Spain.

Mateu Valencia, the Spanish foreign ministry's director-general of international economic relations, who accompanied Mr Matutes, said he was encouraged by the Cuban government's interest in a Paris

Club solution to the debt. "I think we are going to see positive movement," he said.

Paris Club officials were understood to be studying ways of moving consultations forward. One way would be to set up an ad-hoc group to focus on Cuba's debt. Cuba and Paris Club representatives were expected to meet next month.

RWE Group: good start into the new business year.

Report on the business development from July through September 1998

Net income

In the first quarter of 1998/99, the Group's net income (without minority interests) totalled DM 306 million. This includes the profit from the sale of the uranium ore activities in the Mining and Raw Materials division. Adjusted net income grew by 10.1%. Higher electricity sales volume, increased sales of printing presses and wide-ranging cost-cutting measures across all the divisions contributed to the advance in net income. The charges from the telecommuni-

- Net income up 10.1% after adjusting for income from disposals
- High sales volume growth in the energy division
- Printing press operations continue to advance strongly

cations division have increased owing to a higher share of o.tel.o in E-Plus and through higher losses in the wireline network.

Net sales

The Group's external net sales benefited from a 2.5% rise in foreign sales; the foreign share in the Group's net sales advanced from 21.6% to 22.9%. Owing to lower domestic sales, the Group's net sales were 3.5% down from the year-earlier level in the first three

months of the 1998/99 business year. This was due in particular to lower prices of crude oil and petroleum products, reduced power plant coal deliveries of LAUBAG and to the divestitures completed. Sales increased in the other divisions, especially in the printing press operations of Mechanical and Plant Engineering. Adjusted for the

effects of consolidation, net sales were down 4.3% from the year-earlier level. The Group's internal growth in the first quarter was 1.6% when adjusted for consolidation effects and the negative impact of prices in the Petroleum and Chemicals division.

Capital expenditure

At DM 1 201 million, the Group's capital expenditure, including acquisitions, was up 39.8% on the year-earlier level. This was due in particular to higher financial asset investments in our exploration projects and the establishment of the FUCHS DEA lubricants joint venture. Fixed assets increased, too, mainly as a result of restructuring the Heide refinery and owing to higher expenditure in the power plant sector.

Workforce

In the period under review, the number of employees grew by 1.1% to 147 008. While the workforce declined slightly abroad, the number of employees in Germany rose by 1.5% to 116 286.

Essen, November 1998

The Board of Management

RWE Group 1 st Quarter 1998/99	Year-earlier period DM million	Change %
Consolidated net income without minority interests	298	+ 54.5
External net sales		
Energy	5132	+ 1.4
Mining and Raw Materials	893	- 26.9
Petroleum and Chemicals	7436	- 10.3
Environmental Services	660	+ 10.9
Mechanical and Plant Engineering	2225	+ 10.2
Telecommunications	46	+ 70.8
Construction and Civil Engineering	984	+ 1.7
Others	12	+ 50.0
Consolidated external net sales	17284	- 3.5
Germany	23471	- 5.1
International	3713	+ 2.5

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US interest rate cut is less of a certainty

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METEOR STORM GLOBAL COMMUNICATIONS AT RISK FROM SANDBLASTING BY TINY PARTICLES FROM TEMPEL-TUTTLE

Sting in comet's tail for 500 satellites

By Clive Cookson, Science Editor, in London

The operators of more than 500 satellites in orbit around the Earth are taking precautions, wherever possible, to protect them against what scientists warn may be the strongest meteor storm since 1966.

Late this evening and early tomorrow morning Earth will pass through the dusty tail of an obscure comet called Tempel-Tuttle. Tiny particles, most of them smaller than grains of sand, will hit the upper atmosphere at 200 times the speed of sound.

The result, for viewers well placed on the ground, will be a spectacular display of shooting stars. But the sand-blasting could disable or destroy satellites.

The Leonid meteors - so called because they appear to emerge from within the constellation Leo - will present an "elevated" threat to spacecraft for about 12 hours, according to an official risk assessment by the US defence department and the space agency Nasa.

William Allor, a satellite

safety expert with the US Aerospace Corporation, says spacecraft are unlikely to be shot through with big holes, but "impacts of small particles will create an electrically charged plasma which can induce electrical shorts and failures in sensitive electronic components." The European Space Agency lost its Olympus communications satellite in this way to a stray meteor strike in 1993.

At the time of the last Leonid meteor storm in 1966 there were just a few primitive satellites in orbit. Now there are 500 to 600, ranging

from scientific missions to commercial communications satellites.

In many cases the satellite operators can reduce the risk, by turning the spacecraft so that the most vulnerable parts face away from the oncoming meteors and by switching off high-voltage circuits.

But telecoms satellites will remain on active duty, transmitting telephone calls and computer data. If the Leonid bombardment is more intense than astronomers are predicting, some international telecommunications

capacity could be lost. Precise prediction of the strength and location of meteor showers is notoriously difficult.

"If this reaches 150,000 particles per hour there will be all sorts of difficulty, but there may be only 1,500 per hour," said Tony McDonnell of the space sciences unit at the University of Kent in England.

The two most vulnerable individuals are the Russian cosmonauts, Gennady Padalka and Sergei Avdeyev, on board the Mir space station. During the predicted peak of the meteor storm, the two

men will shelter inside their Soyuz escape capsule.

On the ground, conditions for viewing shooting stars are expected to be best in east Asia and Japan, between midnight and dawn local time. Many astronomers from the US and Europe have gone there to observe what they hope will be a spectacular show.

For those who cannot make the trip, Japan's National Astronomical Observatory is promising to broadcast live on the internet from several sites.

Annan's fixer pulled Saddam back from brink of conflict

Roula Khalaf reports from Baghdad on the last-minute manoeuvres that led to the Iraqi climbdown

While the world was braced for a US military strike on Iraq last weekend, one man was frantically working in Baghdad to avert it. Charged with a mission that carries enormous risk and little glory, Prakash Shah, the special representative of the United Nations secretary general in Baghdad, was at the centre of diplomatic efforts which resulted in an Iraqi decision to resume co-operation with UN weapons inspectors.

During last week, Mr Shah was speaking to Kofi Annan, the secretary general, three times a day, and held four separate meetings with top Iraqi officials, including Tariq Aziz, the deputy prime minister, in search of a way out of the crisis. His presence in Baghdad and contacts were essential because the secretary general could not appear to be too personally involved. Nor could he travel to Baghdad without a direct request by the UN security council, and the US and UK were opposed to such a move.

Since Iraq's decision had been so blatant a violation of security council resolutions,

the diplomatic efforts centred on providing Baghdad with a face-saving formula that allowed it to claim it did not back down out of fear of a US military attack.

The idea of an appeal by Mr Annan, who had negotiated the February agreement which averted an earlier military confrontation, came from the secretary general himself. But he and Mr Shah worked on it for several days, after which Mr Shah

This shows that diplomacy can work if given a chance in resolving conflicts

delivered it orally last week to the Iraqis to test their reaction.

Diplomats in Baghdad say Mr Annan finally decided to put it in a letter in spite of opposition from the US administration. The Iraqi reply was received by Mr Shah on Saturday afternoon,

while US warplanes were on their way to strike Iraq.

"The secretary general's initiative in a direct appeal to President Saddam Hussein on the basis of his conviction that Iraq should be allowed to join the community of nations free of sanctions was a crucial factor," Mr Shah said yesterday.

"We arrived at a peaceful resolution of the crisis largely due to the close working relationship between the secretary general and the leaders of major powers such as the US, Russia and France. This shows that diplomacy can work if given a chance in resolving potential conflicts involving the use of force."

Mr Shah, former representative of India at the UN, was called out of retirement in March to perform the most delicate diplomatic task: smoothing the stormy relationship between Unoscom, the UN weapons inspectors commission, and the Iraqi government so that disputes could be solved locally and not allowed to spin out of control.

A soft-spoken and affable man, Mr Shah is experienced



Prakash Shah speaking to the press in Baghdad at the weekend after Iraq agreed to resume co-operation with weapons inspections

in disarmament issues, having negotiated the chemical weapons convention on behalf of India in 1991 and 1992. He is a compromiser by nature who is sensitive to the plight of the Iraqi population under sanctions.

Seen by Unoscom as something of an irritant, he is valued by the Iraqis as the only man who can relay their views to Mr Annan, whom they trust. With Iraq accusing Unoscom of deliberately prolonging its inspections to maintain sanctions on Iraq, and the inspectors accusing Iraq of persistently concealing information, Mr Shah has succeeded in preventing crises from escalating several times in the past months.

Last June, for example, when Unoscom asked to take samples of warhead fragments for testing in a US laboratory, the Iraqis balked, claiming the inspectors would deliberately let the testing drag on for months.

Mr Shah's intervention led to an agreement allowing the samples to be sent out but for the tests to be completed within one month.

Although visibly relieved that the most difficult chapter so far has been resolved, Mr Shah may face even bigger challenges in the weeks ahead. Another Iraq crisis could erupt before he leaves his post at the end of December. Iraq wants the comprehensive review of sanctions agreed by the security council

to be held as soon as possible but Mr Shah says many members of the UN security council want Iraqi commitment to co-operate tested before the review.

Inspections are expected to begin in the next few days. With the US still prepared to act militarily, any hiccup could still lead to airstrikes.

"The important thing is inspections and full Iraqi co-operation," says Mr Shah. "If Iraq co-operates fully in accordance with UN security council resolutions, then the council can proceed to conduct the promised comprehensive review, which appears to be the important signal for the future."

Editorial Comment, Page 17

Jewish settlers face up to life after Wye pact

By Judy Dempsey, recently in Adora, West Bank

Ronit Orfage believes she is fulfilling God's will by living in Adora, a small, isolated Jewish settlement perched on a steep hill south-west of Hebron.

To give it up now, she insisted, would mean defeat for Israel. "I do not believe in any exchange of land for peace," she said.

But in the coming weeks, land around Adora will be handed over to Palestinian civilian control as part of the Wye accord signed last month between Benjamin Netanyahu, Israeli prime minister, and Yasser Arafat, president of the Palestinian Authority.

Although Mr Netanyahu has pledged not to dismantle any of the 141 West Bank settlements, Adora residents believe they could be vulnerable once, as Mrs Orfage put it, "the local Palestinians get a taste of power".

For this reason, the 73 families in Adora who first moved to this secular settlement 14 years ago are reconsidering their security needs - some, their future.

First they want the bypass linking them to the Jerusalem main road widened so that land either side will remain under full Israeli control.

"The plan is to have a long stretch of land, measuring 150 metres wide on each side of the road that will give us more protection," said Yitzhak Benizri, Adora's head of security. "This would allow Israeli troops to move unhindered. And the settlement would not be completely surrounded by Palestinian-controlled areas."

After last week's cabinet decision to ratify the Wye accord, Mr Netanyahu said 11 bypass roads would be built or expanded over the coming three months at an estimated cost of \$500m.

Some of the money, said government officials, would be used to compensate Palestinian landowners whose



land would be expropriated for those roads. But the military is already wary of building roads that will cut into Palestinian farm land.

One officer feared it would spark unrest among Palestinians whose land and villages are already separated from each other by settlements and bypass roads.

Palestinian farmers are concerned for other reasons as well, fearing some of the more radical settlers will defend the settlements even more aggressively.

In Adora there is a debate about improving security, with calls for electronic surveillance and fencing.

Some Adora residents balk at the idea of having to live in a kind of ghetto. But they dismissed suggestions that achieving peace might be made easier if stolen land was returned to the Palestinians.

Mrs Orfage insisted it was not stolen land. "We are simply reclaiming land for the Jewish people, as stated in the Bible," she argued. The thought that Palestinians might one day establish a state alongside the settlement angered her.

Yet in the cold light of the Wye accord, Mrs Orfage and her colleagues are reflecting more soberly about the future.

"To tell you the truth, you have to give up something for peace," said Mr Benizri, 52, who believes a Palestinian state is inevitable.



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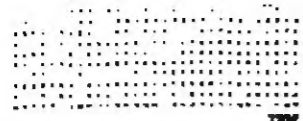
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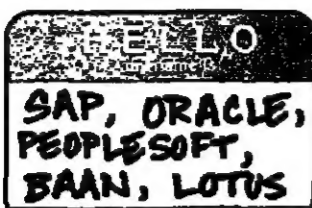
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Run a data mine, not a server farm. An infrastructure built on multiple servers can be open to multiple management problems. Just deploying a new major application requires a visit to each and every server. And in the environment of enterprise computing, it's a mathematical fact that enormous complexity equals enormous costs (no wonder Wachovia Bank N.A. chose to eliminate 90% of the office automation servers in their information services department through an S/390 consolidation).

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BRITAIN

ECONOMIC GROWTH PRIME MINISTER GIVES ASSURANCE TO BANKING AND BUSINESS LEADERS ON GOVERNMENT RESOLVE

Blair says forecast may be optimistic

By Robert Peston, Political Editor

Tony Blair, the prime minister, last night conceded that the chancellor's economic growth forecast may be too optimistic, but insisted government spending plans would not be revised. In his annual speech at the Lord Mayor's banquet in the City of London, Mr Blair said the government would "respond sensibly" if the "economy is weaker than we expect".

It was a striking statement

to make less than a fortnight after Gordon Brown, chancellor of the exchequer, revised downward official growth forecasts in his recent pre-Budget statement to between 1 per cent and 1.5 per cent next year and 2.25 per cent and 2.75 per cent in the following year.

Mr Blair was departing from tradition by concentrating on the domestic economy in the banquet address, which normally covers foreign affairs. His chief spokesman said it was important to

convey to the business and banking audience that the government would not be panicked into sudden changes of economic policy.

Mr Blair tried to allay concerns that his government's commitment to increase public spending significantly over the coming three years may be risky. "To cut back on public investment at this stage of the cycle would be folly," he said.

He indicated it would be a good thing if public borrowing rose with an unexpectedly sharp slowdown in

growth and consequent reduction in tax revenues and increase in social security spending. It would allow "the automatic fiscal stabilisers to work", he said.

Mr Blair made no comment, however, on whether this would represent a departure from the so-called "golden rule", or the chancellor's pledge that the public sector will borrow only for investment purposes over the course of the cycle.

However, he said predictions "about black holes in the government's finances"

were nonsense. The chancellor has pointed out that there is a £33bn (\$55bn) cumulative surplus of current spending over borrowing for the five financial years beginning next April. "Steering a course of stability in an uncertain world" was his message, he said. "It may not be sexy enough for the headline writers but in my view stability is a sexy thing".

● Farmers were warned to brace themselves for further sweeping change to the agriculture industry yesterday

as the government unveiled a £100m (\$160m) emergency aid package. Andrew Parker writes. Nick Brown, agriculture minister, said planned reform of the EU Common Agricultural Policy must "reduce the burden currently imposed by the CAP on consumers and taxpayers".

Mr Brown has secured a one-off sum from the Treasury's contingency reserve to part cover the aid package. The rest of the money will come from the European Union.

Wanted: charismatic figurehead for London

The rapid approach of a new political power base in the capital is worrying Tony Blair, says Deborah Hargreaves

When Ken Livingstone led the Greater London Council, then one of the largest municipal authorities in the world, he erected a banner across the front of the council's headquarters on the south of the River Thames. The banner declared the number of Britain's unemployed. The banner was clearly visible from the Houses of Parliament on the north side of the river, and was intended by the Labour party's Mr Livingstone as a barb against the Conservative government led by Margaret Thatcher.

She abolished the GLC and with it the powerful position of the leftwing Mr Livingstone. She said the move would simplify local administration by handing over powers to the 32 boroughs that cover all of London except the City. But many believed she was taking revenge for years of attacks on her government.

Now Tony Blair, Labour's first prime minister for 18 years, wants to create a directly-elected London mayor and Mr Livingstone is keen to stand for the post. But in the past 12 years, the Labour party has moved to the right of the political spectrum and Mr Livingstone's leftwing views are as unpalatable to Mr Blair as they were to Mrs Thatcher.

Mr Blair is searching for an official Labour candidate for the mayoral election in 2000 which the Labour party is expected to win. Mr Livingstone last week pledged to ask party members in London to write his name onto the ballot paper if he is not selected as official candidate.

Labour is worried that Mr

Livingstone would embarrass the party if he were voted in as mayor. Conservative party members are also concerned that their prospective candidate, Lord Archer, the controversial novelist, will embarrass them as details from his colourful past are dredged up.

William Hague, leader of the Conservative party, last week ignored pressure from some of his colleagues and cleared the way for Lord Archer to stand. In a full page editorial last week, London's Evening Standard newspaper decried the lack of talent in the current line-up for mayor declaring: "We are in a mess over London's first mayor."

The newspaper's concern is to see London represented by a charismatic, influential figurehead. Although the new mayor will wield little direct power, he or she will have an enormous personal mandate upon which to build a power base.

The reason for this is that the mayoral election will be a direct vote by residents in the 32 boroughs - up to 5m people.

The mayoral election will therefore potentially attract more direct personal votes than any person in British political history on a par with the numbers of votes cast for the presidents of Germany or France.

The mayor's powers will extend to transport, a new London development agency, the police and fire brigade and strategic planning. But unlike the old GLC, the new mayor will have no tax-raising power. He or she will also have no influence over health, education, social services and housing.

The London mayor will



Ken Livingstone (left) set out part of his programme in May: "I would like to see a proper ability to tax the most wealthy parts of London." Lord Archer, the Conservative candidate for mayor, is better known as Jeffrey Archer, the author of such best-selling novels as *Kane and Abel* and *First Among Equals*. He recently wrote: "Yes, I have made a number of mistakes in my life."



City is urged to 'keep leading the international pack'

The City of London has become one of the UK's strongest brand names, Lord Levene, the incoming Lord Mayor, said last night, Alan Pike writes. It was recognised as the world's greatest international financial centre, and was among the largest and most successful industries in the country.

"We are not keeping up with the pack," he said. "We are leading it, and we must do whatever is necessary to maintain that lead."

But, he added, he faced

right; once a market has been lost we may never get it back. The office of Lord Mayor dates from medieval times and covers only the City of London, which is home to many financial institutions and businesses. The new mayor to be elected in 2000 will cover the rest of the capital.

have access to a budget about a fifth the size of Rudolf Giuliani's in New York. The mayor will also have to work with the new 26-strong London assembly.

But a strong personality in

the London job for the first time could define the mayor's office and certainly the style in which London is run. That could set the tone for the future and for other city mayors in Britain.

Jeffrey Archer and Mr

Livingstone are well known in London. Other candidates mooted for the Labour party's nomination include Pauline Green, leader of the Labour MEPs in the European parliament, and Tony Banks, sports minister, who also served on the GLC.

The election may be 18

months away, but Mr Living-

stone and Lord Archer are

campaigning already. Mr

Blair needs to find a candi-

date quickly to capture the

popular imagination of Lon-

doners if he wants to derail

his leftwing critic.

'Elitist' name for skill scheme to be dropped

Simon Targett, Education Correspondent

The government is to drop the name of its initiative on lifelong learning. "University for Industry", after advisers warned that it was too narrow and elitist. Officials feared it could deter people who are out of work or in small businesses, thereby undermining the government's drive to close the skills gap with Britain's rivals.

John Field, of Warwick University, who is the country's first professor of life-

long learning, welcomed the prospect of a new name. "The name 'University for Industry' is a core problem if the idea is to take off. It is not memorable, it is misleading, and it is exclusive." He said the government should "take some risks and get rid of the gravitas and go for something unashamedly populist".

The government's decision, coming just weeks after ministers unveiled plans to invest £40m (\$66m) in the Ufi and to launch it in 2000, points to a sense of growing crisis at the heart of the gov-

ernment's lifelong learning policy. Ministers have ordered the transition team, headed by Lord Sainsbury of Turville, to conduct some market research to find an alternative name.

One idea is to call it Learning Direct, echoing the popular trend in selling insurance pioneered by Direct Line and conveying the idea of work skills which are accessible at the touch of a button. The name change would mirror early uncertainty over the image of the Open University, which was originally labelled the University of the

Air. A minister said the government was anxious that the Ufi did not become "just another academy for the highly educated".

The idea of a Ufi, first developed by Gordon Brown, the chancellor of the exchequer, when he was a shadow minister, was to "do for the workplace what the Open University did for the home". But now, in government, the Labour party wants to remove both "university" and "industry".

A minister said the title "university" might put off people who view such elite

institutions as "not for them", while "industry" would be too narrowly focused on people in the workplace. In its new guise, the Ufi, offering sub-degree courses via the internet, would be marketed to people who required "upskilling" and who, having been made redundant, wanted to take courses from home.

The title Learning Direct is already used for the government's national learning helpline, and is next year to become the Ufi's information and advice service.

NEWS DIGEST

NORTHERN IRELAND PEACE PROCESS

Republic's police issues warning to Continuity IRA

Commissioner Pat Byrne, chief of the Garda Síochána (the Republic of Ireland police) warned yesterday that "the full resources of the state" would be aimed at the Continuity IRA if it tried to disrupt the Northern Ireland peace process. The group is the only paramilitary organisation to reject the peace process and refuse to declare a ceasefire.

Eight senior figures from Republican Sinn Féin, political wing of the Continuity IRA, have recently been held and questioned in the republic and released without charge. Republican Sinn Féin declared after a meeting of its policymaking executive in the republic at the weekend that political resistance to the peace agreement would continue. It also vowed to "continue to give leadership to nationally-minded people throughout Ireland".

Mr Byrne said of the Continuity IRA: "If it is their intention - which I believe it is - to destabilise the peace process, the resources of the state will be utilised against them." But he was convinced that the mainstream IRA's ceasefire was holding.

● Soldiers from the British army's 16 Regiment, Royal Artillery, left their base in Armagh, Northern Ireland, by helicopter yesterday at the start of the exit from the region of 400 troops. When they are gone, there will be about 15,000 British troops in Northern Ireland, the smallest number since 1970.

ANIMAL WELFARE

Cosmetics testing to end

The government yesterday announced an end to the testing of cosmetic ingredients on animals in the UK. All British cosmetics companies with testing permits have surrendered them voluntarily and no new licences will be issued, said George Howarth, the Home Office minister responsible for animal welfare.

The announcement, which follows a ban last year on animal testing of finished cosmetic products, was greeted with enthusiasm by some animal rights campaigners. Sir Paul McCartney, the former Beatle whose late wife Linda was a passionate campaigner, spoke of "great news for our civilisation and the animals". The last year for the 2.6m animal experiments carried out last year were for biological and medical research and pharmaceutical development. The government made clear yesterday that it had no intention of banning these. Clive Cookson, London

MOBILE TELEPHONE LICENCES

Auction could see \$830m bids

The UK government auction next year of licences for the next generation of mobile phone services could attract bids of up to \$830m (\$830m) from companies anxious to share in a market expected to be worth \$3.6bn by 2012.

This is the chief conclusion of one of the first financial analyses of the market for next-generation mobile services, known colloquially as UMTS (Universal Mobile Telecommunications System). UMTS will offer the combination of mobility and access to high-speed data. It will be possible, for example, to deliver multimedia, including full motion video, to a handset no larger than today's mobile phones.

The study, from stockbroker Henderson Crosthwaite, points out that while four licences are to be awarded, the government is keen to see participation from companies other than incumbents Vodafone, Cellnet, One-2-Go and Orange, or their parent companies. Alan Cane, London

CITY OF LONDON

Rail link to open on 'euro day'

The Corporation of London, the municipal authority for the City, is to pay for the underground railway between Waterloo station and the City of London to open on January 1 so that bank staff can get to work to prepare their systems for the launch of the euro.

The Waterloo and City Line would normally have closed on January 1, but London Underground has agreed to open it after the corporation agreed to pay its costs, estimated at about £5,000 (\$9,980). Financial institutions have spent months preparing for the single currency, but they will learn the final conversion rates for the 11 national currencies to join the euro only in the afternoon of December 31. Trading will resume in the new currency on Monday, January 4. The Corporation estimates that between 20,000 and 30,000 City staff will have to work over the conversion weekend; some consultants believe more than 50,000 people may be involved. George Graham, London

CORRECTION

Templeton College, Oxford

The analysis of overseas operations of multinational companies covered in the Financial Times yesterday was published by Templeton College, Oxford, and not by Oxford University. The report, Templeton Global Performance Index, is available from Templeton College, Oxford OX1 3NY, UK, for £85.



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TECHNOLOGY

IT INTERVIEW BRIAN HALLA, NATIONAL SEMICONDUCTOR

The boss banking on free computers

Brian Halla is seen as a visionary by some industry analysts but treated with scepticism on Wall Street, writes Roger Taylor

Prices for personal computers have dropped far faster than most expected over the past couple of years, but few in the industry would go so far as Brian Halla in predicting that soon they will be given away free.

Mr Halla, chief executive of National Semiconductor, is sure that will happen within a year, and says he is already working with partners on possible free PC projects.

It is the kind of bold prediction that helps him maintain his optimism in a difficult period for his company. National Semiconductor's share price is trading at about half its 1998 high, yet Mr Halla is in remarkably jovial form.

He jumps up from his chair and strides around the office, drawing diagrams on flipcharts, grabbing product prototypes and behaving like an excitable entrepreneur raising money for a start-up rather than head of a multi-billion dollar corporation.

But in some respects, National Semiconductor is back on the starting blocks. More than 20 years ago, National was the largest semiconductor company in the US, today, it is one-tenth the size of Intel and still struggles to find its place in the market.

The key to its future is the "system on a chip". By next year, National Semiconductor says, it will be able to put the entire workings of a PC on a single chip. This has the potential to reduce significantly the cost of

PCs and to put computing in all sorts of unexpected formats.

The company has already developed a computer motherboard on a flexible strip that allows it to be used in a PC worn on a belt (see story on right).

The free PC is not as outlandish as might appear. In the financial services industry, for example, it can cost more than \$250 (\$150) to acquire a customer - and these are customers who are often expensive to service because they like to pop into their local branches to ask questions.

With PCs selling for less than \$400, it would be simple for a big US bank, for example, to have a

'The PC will become a plug-in device, not a device you plug into'

large number of custom-made basic PCs built to order at a unit cost substantially below this. A free PC with every new account could draw customers and encourage them to switch to online banking, lowering service costs. The machines would have an extra button, marked with the bank's name, that automatically connects the customer to an online banking service.

The free PC is, in Mr Halla's opinion, part of a broader indus-

try shift from what he sees as the Intel strategy of aiming constantly to increase the power of computers to justify new models and the higher prices they initially command.

Instead, the market will shift towards a more flexible view of computing as a facility that can be added to all sorts of appliances, from television sets to telephones. "The PC will become a plug-in device, not a device you plug into," he says.

Rivals such as Intel agree on the need for simpler, cheaper computing devices. However, they do not expect a rapid detrimental effect on the PC market.

Analysts are divided on the issue. One industry research company, Forrester, predicts that 1999 will be the peak year for PC sales, after which prices will collapse and simpler computing devices will start to make big inroads into the market. In contrast, rival Gartner Group predicts PC sales will double between now and 2002. Furthermore, it expects Intel to retain its industry leadership through any shifts in the market.

Mr Halla's strategy wins him a lot of fans among industry analysts, who regard him as a "visionary" - a highly prized attribute in Silicon Valley. But on Wall Street there is a good deal more scepticism about whether Mr Halla has a firm enough grip on the realities of the present. His excitable talk of the coming revolution in computing reeks of the hype to which the technology industry is so prone. In particular, there seems to be a discrepancy between Mr Halla's big picture and his company's performance.



Down times: Brian Halla's 'worst failure' was losing the 3Com contract, but he believes better times are not far off

Of all the leading US semiconductor companies, National has been the worst affected by the prolonged slump in the semiconductor market. Losses of close to \$100m in the year to May on sales of \$2.5bn forced National last month to announce the closure of part of its semiconductor plant in Scotland and the sale of the rest.

Mr Halla has put together a unique combination of assets combining the less glamorous

analogue business, which makes circuits for tasks such as controlling the power on a computer motherboard, with the capacity to make low-cost X86 processors - the heart of any Windows-based computer.

However, the industry has had some unpleasant surprises. Cyrix, the X86 microprocessor builder, lost its order to supply Compaq, the largest PC maker, earlier this year. Then National lost an important contract to sup-

ply 3Com with network switching circuits.

Mr Halla describes the loss of the 3Com contract as the "worst failure" in his career and says the company is now focused on improving execution. He believes a change in fortune is not far off. "When this thing turns, it will turn very, very fast," he says.

If he is right, PCs could soon be free. If he is wrong, National Semiconductor will shortly be available for a knock-down price.

MINIATURE COMPUTERS

Waistline PCs serve coffee in a moment

A computer round the waist is part of the uniform for staff in a number of Starbucks coffee shops around the US, writes Roger Taylor.

They walk along the line of waiting customers, take their orders, and dictate them into a headset attached to the computer, which is worn on a belt.

The computer uses voice recognition software and a wireless connection to computers at the counter to process the order and beam it instantly to counter staff. If all goes well, your coffee is waiting for you by the time you reach the front of the line.

The device is on trial but early indications are that it works well. It is made by Via, a Minnesota-based company, and makes use of technology from National Semiconductor which has put an entire computer motherboard on a flexible strip about 5in long - small enough to fit comfortably in a belt.

Mr Halla is delighted with the device. "I have dedicated my life to not waiting in line," he says. He adds that the belt PC could save Starbucks plenty of money as long lines are the single biggest cause of lost customers.

He also believes the device illustrates the need for "information appliances" - the broad term used to describe computers in new formats - to continue to use the Windows X86 architecture.

It relies on voice recognition software from Lernout and Hauspie, the Belgian linguistics software company, which - like most software applications - has been written to work with Windows.

FT GUIDE ENVIRONMENT CONFERENCE

Becalmed while hurricanes rage

The stakes are high but the biggest decision at this year's UN climate-change conference was to delay deciding, says Vanessa Houlder

I keep hearing that the current spate of natural disasters may be caused by climate change and that there is an international effort to remedy this. What happened at the United Nations conference on the subject last week?

On the face of it, not a lot. It was meant to start sorting out the loose ends from the Kyoto conference last year. Then, rather against the odds, the industrialised world agreed to legally binding cuts in greenhouse gas emissions, which are blamed for global warming. This year's conference, held in

Buenos Aires, was less dramatic. After two weeks of intricate negotiations, the conference decided to postpone most of its difficult decisions, doing little more than outline the items to be discussed in the future.

It sounds like the old joke: everyone talks about the weather, but no one does anything about it. It's easy to be cynical. The Buenos Aires meeting was a huge talking shop: there were 1,500 ministers and officials and more than 2,500 delegates from the UN, environmental lobby groups,

think-tanks and trade associations.

For two weeks they were cloistered in a vast windowless conference hall discussing the "process" of agreeing climate change measures with the help of obscure jargon - "invisible brackets", "zeroth draft", "nonpapers", and endless acronyms - COP, MOP, GEF, COW, AII, CDM, JI, for instance.

It is not surprising that progress was slow. The attempt to curb global warming is an enormously difficult undertaking. Countries are understandably reluctant to do

anything that will hurt their prospects for economic growth. So there is a huge debate about how to share the burden of reducing dependency on fossil fuels. Moreover, it is a bit like setting up a cartel - it will only work if everyone abides by the rules. That means there is a lot of suspicion about some provisions in the Kyoto protocol that, critics say, could allow countries to wriggle out of their obligations.

Such as? The so-called "flexible mechanisms", market-based instruments designed to reduce the overall cost of curbing global warming. There is widespread support for one of these - the

clean development mechanism - which will give an incentive to industrialised countries to transfer clean technology to developing countries.

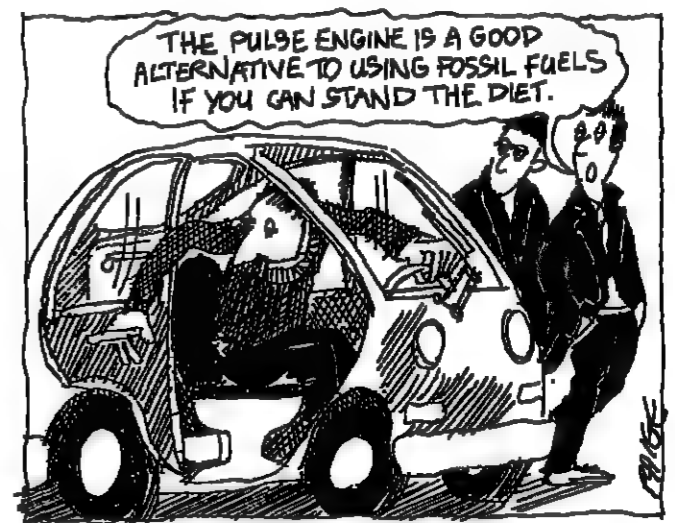
But emissions trading, which allows countries to sell credits if their emissions are lower than target levels, is far more controversial. The US believes such trading has a crucial role, but the EU and G77 group of developing countries want to impose limits on its use, since they fear it could otherwise reduce the pressure on industrialised countries to make domestic cuts in emissions. This is one of several contentious issues the Buenos Aires summit failed to sort out.

You make the conference sound like a non-event. Didn't the US sign the protocol? Wasn't that significant?

The US delegates claimed that signing the protocol gave added momentum to the talks. But it was not so significant. In fact, because it does not take the US any closer to ratification.

The US Senate strongly opposes ratification because it thinks the Kyoto protocol is too stringent and will lead to industrialised countries losing jobs to the developing world, which would not be subject to stringent pollution controls.

One of the fiercest arguments at the Buenos Aires summit was over the US insistence that developing countries should make voluntary commitments to abate emissions. Despite a move in this direction by Argentina



and Kazakhstan, there is strong opposition to the US request from key countries such as China. So there are some difficult arguments ahead.

How much does US ratification matter?

Well, some people argue that even if the US doesn't ratify the protocol, it will still have moral force. But there is a strong possibility that without the US coming on board, the entire international agreement on emissions reductions could fall apart in a few years' time.

The crunch time is likely to be after the next US presidential elections. Optimists about ratification hope that political sentiment in the US will swing behind the Kyoto protocol. They cite growing public concern about climate change, and a growing willingness of US industry to take climate change seriously, as grounds for hope. Moreover, if there continue to be large numbers of extreme weather events such as

hurricanes, droughts and floods, people's minds may become concentrated on the subject.

And if this UN agreement is derailed? Is all lost?

In the short term, the stakes are high - even though it is arguable that the emission cuts agreed in the Kyoto protocol, an average of 5 per cent between 1990 and 2010, will not by themselves do much to save the planet.

Many scientists argue that it is too little, too late to make a difference. But it is important in that it paves the way for further cuts and, moreover, sends a signal to industry and consumers about the need to reduce dependency on fossil fuels.

In the long run, though, it is arguable that technological advances, rather than political will, are going to be the key to combating global warming. If the development of cheap and effective alternatives to fossil fuels gathers lasting momentum, the UN's efforts might come to seem something of a sideshow.



Talking dirty: a Korean ecological group protests against developed countries' support for emissions trading at the Buenos Aires conference

Reuters



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COMMENT & ANALYSIS



PETER MARTIN

Chain reaction

It is not just globalisation which is forcing companies into cross-border mergers. Deflation is also playing a big part

Everyone in chemicals is doing it. Pulp and paper is following suit. Oil is starting to move the same way. Steel is teetering on the brink. Cars are joining in too.

For basic industries - the ones that powered the world's industrial transformation over a century and a half - there's no escape. No longer the stars of their domestic economies, they are undertaking cross-border rationalisation to survive.

The chemicals industry is the most visible example. Hoechst's merger talks with Rhône-Poulenc bring together two companies that have already taken big steps to escape from their chemicals roots. They follow hard on the heels of ICI's transformation, the planned merger of Clariant and Ciba Specialty Chemicals, and the purchase by Shin-Etsu of Japan of Rohm, a Shell/Akzo Nobel joint venture, to become the world's biggest PVC producer.

Other traditional manufacturing industries have also seen the writing on the wall. In steel, Usinor of France is taking over Belgium's Cockerill-Sambre, and British Steel has acquired control of Sweden's Avesta. In pulp and paper, Sweden's Stora and Finland's Enso have come together. In oil, British Petroleum is taking over Amoco. In cars, Daimler is merging with Chrysler.

One way of looking at this cross-border merger frenzy is to see it as part of globalisation. With the world now a single market for many of basic products, a pattern of production and ownership that reflects traditional national boundaries no longer makes sense. So industries are settling down into new constellations of power and

scale, crossing national boundaries as easily as they once crossed local ones.

That is only part of the story. True, globalisation would have shaken up traditional patterns of ownership - eventually. And without a recent willingness on the part of governments, managers and shareholders to accept overseas ownership without complaint, many of these deals would have proved difficult.

But the urgency with which these companies are coming together derives from something else. It's one of those invisible economic trends we all know is happening but find it hard to pin down: deflation.

Stable prices, which now reign across the developed world, are a statistical illusion. Those unmovable consumer price indices do not reflect what is really happening to businesses. In the words of a hoary old statistical joke, they are the average temperature of a man with his head in the freezer and his feet in a bucket of hot water.



others, it is the result of low long-term interest rates or booming stock markets.

Industries that do not face the same pricing pressures would do well to learn a lesson from those that do. The impact of deflation seems set to get worse, if anything, rather than better. Real interest rates remain high all round the world, even after the recent easing in the US and elsewhere.

Consumers have been conditioned to expect bargains - and are sufficiently apprehensive about the macro-economic outlook to seek them out. Asian exports will recover fast enough to keep downward pressure on finished-goods prices, but not fast enough to ease the squeeze on suppliers of basic ingredients. And in Europe, the increased transparency that follows the euro will help push prices down.

These are all reasons to think that even those businesses currently basking at the warmer end should think hard about how to cope with falling prices. Product differentiation, extra service, internal cost-savings, the creation of parallel "bargain" brands - these are all familiar weapons in this struggle. Only when these remedies are exhausted should companies contemplate cross-border acquisitions.

Such deals are inherently risky. They are riskier still when produced by fear rather than greed. Defensive mergers of equals, in which the distribution of power is unclear and the unspoken shared motive is a desire to shelter from the cold, are the riskiest of all.

Cross-border mergers are likely to succeed only when their motivation is aggressive and the victors in the internal struggle for power are identified at the outset. Some of the recent deals in basic industries (such as BP/Amoco) fit this pattern. Many do not.

The 1970s taught us how inflation damaged business decisions and the allocation of resources. We will soon be learning the hard way, that deflation has an industrial price too: botched mergers and unworkable combinations.

peter.martin@ft.com

LETTERS TO THE EDITOR

Action, not denial, is required to bridge the UK's productivity gap

From Mr Peter Mandelson

Sir, John Redwood (Letters 16 November) argues that it is no wonder that Britain comes out badly in McKinsey's productivity comparisons because exchange rates were used that are lower than recent market rates. Does he not realise that, because market rates vary so much, the internationally standard way of making comparisons is to use purchasing power parity exchange rates based on local prices for similar goods? Surely he is not arguing that the appreciation of roughly a fifth in sterling against the DM in the year to May 1997 improved our productivity relative to Germany by this amount?

He also takes exception to my statement in last week's debate that "productivity relative to our main competitors did not improve during the Tory years".

National accounts data show that between 1979 and 1996 we fell behind Japan, west Germany and Italy in terms of gross domestic

product per worker, that we made practically no progress against France, and that everyone did rather better against the US - not surprising since it is the world leader from whom others should be well placed to learn. Overall, my statement stands.

McKinsey told the first of the DTI/HMT productivity seminars that economic performance gaps remain significant. Its report shows that our GDP per head grew somewhat faster than in the US, Germany and France between 1985 and 1996, but makes clear also that the underlying reason is not that our productivity improved faster. It is that the proportion of our population in work has tended to increase. If more slowly than in the US, and that the proportion in work has tended to fall back in Germany and in France.

In short, we have tended to draw more people into the labour market, an excellent thing which welfare-to-work is designed to enhance. Would that our relative productivity

had also improved. Instead of pretending that no productivity gap exists, as Mr Redwood repeatedly does in the House and in the press, we see this as a challenge that requires action, one that we are determined to meet.

Of areas referred to in his letter, we have already announced that we will re-examine planning regulations and building controls; we are pressing with like-minded European Union partners to phase out milk quotas; our telecommunications market is already one of the most competitive; and the Commission is looking generally at price differences, including cars. Far more fundamental will be the programme of action to improve our competitive performance that the government will soon announce in my white paper.

Peter Mandelson, secretary of state for trade and industry, 1 Victoria Street, London SW1H 0ET, UK

Blair should move into the open on EU

From Sir Roy Denman

Sir, Philip Stephens offers a characteristically elegant defence ("The goal is set" November 13) of Tony Blair's policy towards the euro. The prime minister sees "Britain's future embedded in the European Union". Some day it will join the single currency. What happens meanwhile, as far as the British public is concerned, is clouded in mystery.

This Micawber-like approach is depressing enough. Even more depressing is that Mr Blair is still not facing up to the full political implications of the European adventure.

From the beginning the aim has not changed. Following Robert Schuman in 1950, and Walter Hallstein 40 years ago, Gerhard Schröder pledged on November 10 to drive forward the further development of a political union.

Joining this would for us be a major step. Yet, as Germany has shown, federation can be a highly successful means of ensuring prosperity at home and influence abroad, while fully respecting local traditions.

If Britain chose to put its weight behind political union it could play a important role in Europe and the world.

But the British people need to make this choice after full and honest debate, not to be told half the story several years late. In the meantime, as Mr Stephens points out, the euro-zone is forging ahead. The clock is ticking. It is time for Mr Blair to come out of his corner.

Roy Denman, 194B Avenue de Tervuren, 1150 Brussels, Belgium

Third world should draw business into dialogue

From Mr Robert Davies

Sir, Martin Wolf's commentary ("Aid, hope and charity", November 11) on the World Bank's conclusions that aid works where economic policies are sound and that aid in these circumstances is a good investment, is welcome.

Economic growth that includes the poor, builds human resources and opens doors to trade and investment is a better recipe for sustainable growth and poverty alleviation than dependency. But the economic growth model in a world where private sector capital flows, trade and investment are the main

motors for development, will work best where the private sector is encouraged to optimise the development benefit from their business operations to communities in poorer countries where they operate.

An enabling environment, which engages the private sector in both dialogue and action to promote transparency and good governance, share management skills, raise business standards, build human resources and strengthen the social infrastructure through partnerships between private and public sectors, will deliver far more

development than open markets alone. In our experience of working with business and partners in developing and transition countries this is beginning to happen. But what is required is that the exceptional behaviour of the leaders now becomes the mainstream practice of the many to the certain acclaim of employees, customers and communities.

Robert Davies, chief executive, The Prince of Wales Business Leaders Forum, 15-16 Cornwall Terrace, Regent's Park, London NW1 4QP, UK

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FT INTERVIEW LEE KUAN YEW

Don't expect too much

Singapore's elder statesman tells Peter Montagnon and Sheila McNulty that Asian values will not be changed either by the crisis or the policy response to it

The great and the good still flock to see Lee Kuan Yew, Singapore's former prime minister and now "senior minister", perhaps because he does not mince his words.

On the eve of this week's Asia-Pacific summit in Kuala Lumpur, Mr Lee has little consolation for Asia's embattled leaders, or for westerners wondering when and to what form Asia will emerge from its year-long crisis.

The summit will not produce any simple solutions to the Asian malaise, he says. If there were such solutions, they would have appeared already. Instead, leaders must give heart to populations still facing a long hard slog. "The key to recovery is to clean out their systems, win back confidence and get capital to flow back," he says. "Then interest rates and exchange rates and everything else will fall into place."

Sitting in his wood-paneled office in the Istana, the palace from where he governed as prime minister from 1959 to 1990, Mr Lee slaps his knee with the conviction of a man who knows he is right. His seemingly frail exterior masks the alertness of a man still bounding with energy.

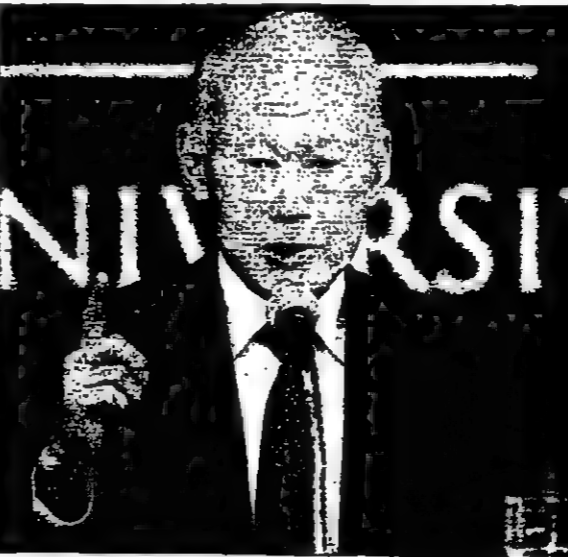
Mr Lee warns the west that it would be rash to suppose that the measures which are called for to deal with the crisis - cleaning up the banking system, better regulation and an end to cronyism - will engender quick cultural change.

"Can you expect them to wake up the day after the crisis and say 'we've done wrong, let's be different'? That is not realistic."

Asian bankers will still help a nephew or a cousin get a loan, he says. "I don't see that stopping altogether. It's been their way of life, and of government."

What about the general issue of government corruption? In particular, what about the vexed question of underpaid government officials in several parts of Asia collecting monies that are not properly accounted for?

"[Countries] may change



Lee: "Countries with some capital controls have come off better"

over a generation, but not immediately," Mr Lee says. "Moreover the 'toll collection system' set up by underpaid government officials has been institutionalised and cannot easily be dismantled. But they will have a more open system, which foreign investors and banks may find acceptable." In general, he says, "they know their excesses will have to stop".

Democratic reforms are not a panacea. Even in Asian countries which have democracy, voting often involves money, and huge sums change hands. "Look at the Philippines," Mr Lee explains. "It has democracy and a free press which are supposed to get rid of corruption, cronyism and nepotism. But by backing the right candidates with their resources in the last elections, Mrs [Imelda] Marcos and her children are back in the political and business limelight. [Former President Ferdinand] Marcos pillaged the country but the family is back, and the loot has not been recovered."

Indonesia is also on Mr Lee's mind. The country is emerging from its economic crisis as a possible security risk, and it is important that the army is not pushed quickly out of politics, he says. It needs a government that will restore order and confidence. "For that, they need elections to produce a government that will have

legitimacy with their people. Only such a government will have the clout to carry through the tough reforms they need."

Even so, Mr Lee argues for caution. "If they do it in stages and do not try to have a total change at once, and the army stays in support of the process, there is a fair chance that they can pull through. But if they go for immediate and total change, and out with the army, there could be trouble. If the army is not in active support of the government, not an active participant in decisions affecting law and order, there could be chaos [in Indonesia]," he says. "If you completely overturn the present set-up, I don't know what will emerge."

Mr Lee says the crisis is bound to add to pressure on governments to maintain some form of capital controls. Singapore is not in favour of them but others face different circumstances. "Many developing countries will conclude that those with some capital controls, like Taiwan and China, have come off better."

Free capital mobility for developing countries with weak institutions is not necessarily a plus, Mr Lee argues. The borrowing spree only started in Thailand and Indonesia after they lifted capital controls in the early 1990s, and it was made worse because international lead-

ers were emboldened by the bailout of Mexico's creditors in 1995.

One change which does appear to be in train is a more relaxed attitude about involvement in the affairs of other countries, long an Asian taboo which has prevented proper discussion of economic policy at a regional level.

Thailand and the Philippines have already suggested there should be more openness. "This is rational and logical and in economic matters should be acceptable. But in political terms, it's still difficult. We should not push it too fast because this is a wrenching cultural change for many leaders," Mr Lee says.

Asian, the Association of Southeast Asian nations, was "shock-shocked" by the crisis but is far from being a spent force, he says. Its members still need each other to have a bigger voice in the region. "But all are dazed at what has happened and have not taken in the extent of the damage. We have not completely hoisted in the economic, social and political implications of what has struck us."

He believes Japan has been criticised unfairly for lack of leadership in the Asian crisis. After all, the country has committed large amounts of money which China, the region's largest country, was not in a position to offer. China has made a useful contribution by resisting the temptation to devalue, but it was unable to provide solutions for the entire region.

Mr Lee says Japan has not had the clout to impose policies on other governments. This is still the prerogative of the International Monetary Fund, with US backing. For Mr Lee, this is a satisfactory state of affairs, as it is further evidence that no one country can dominate the region.

"The Americans can play the Japanese card with the Chinese, and the Chinese card against the Japanese. But Japan and China have no card to play against the Americans, not unless they can act together, which is unlikely."

DEPOSITARY RECEIPT LEADERSHIP

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Tuesday November 17 1998

Japan's failing policies

Japan's latest economic stimulus package, announced yesterday, was characteristically vague and confusing. Combined with the Bank of Japan's moves to pump liquidity into the economy, it may just be enough to keep the economy out of deep recession. But it is likely to make Japan's structural problems even worse.

Part of the reason for the severity of Japan's recession is overcapacity in both the banking sector and in industry. The keiretsu system and extensive cross-shareholdings provided a shield from market pressures. And the close relationship between companies and banks meant that companies could borrow for projects with little assessment of their viability, even as their profitability declined.

Despite the depth of the current recession, though, very little of this capacity has actually been taken out of the system. The soaring bankruptcy figures are only the tip of the iceberg.

Banking sector restructuring has shied away from any proper assessment of which banks are worth saving and which should be closed. The Bank of Japan's decision to accept corporate bonds as collateral for cheap loans will also help banks struggling to keep afloat.

With the pain now spreading from the banks to the corporate sector, companies are looking to the Japanese government for help; they are getting a response. The banks are being actively

encouraged to lend more. Yesterday's stimulus package included an allocation of ¥5,900bn (\$28.5bn) to "alleviate the credit crunch" - which translates as cheap loans for business. The state-sponsored Japan Development Bank is already mulling a ¥100bn loan to carmaker Nissan.

The ¥5.9trn of infrastructure spending in yesterday's package is also, less directly, aimed at struggling companies. The government's enthusiasm for public investment, despite the fact that Japan's infrastructure is already highly developed, is partly explained by the fact that it provides business for the construction sector, which still accounts for 10 per cent of employment.

The lack of market reaction to a package worth 4 per cent of gross domestic product also reveals an utter loss of credibility in Japan's government. This package, like so many before it, was announced with the bare minimum of detail. It is almost impossible to tell how much of the money is new, and how much recycled from previous packages; or exactly how each chunk of money will be spent.

After months of damaging procrastination, the Japanese government's only response to the deepening crisis appears to be to throw money at the economy, bailing out banks and companies indiscriminately. Only when it accepts that real restructuring is necessary will the economy be back on the road to normality.

Benz bows out

No industry is more global in outlook and operations than the motor industry. The globalisation of best production practices has, moreover, provided immense benefits to the consumer. Yet, paradoxically, ownership of the larger companies has remained essentially national. The sleek and increasingly uniform vehicles that emerge from factories around the world are also the product of remarkably different labour market practices, financial disciplines and governance arrangements.

That is a measure of the challenge confronted by DaimlerChrysler, the merged German-US entity whose shares will be traded for the first time tomorrow. An amalgamation on this scale, across national boundaries, is unprecedented. Yet there can be no question that the prize is worth striving for.

The former Daimler-Benz brings to the marriage quality engineering unmatched in the US. For its part, Chrysler uses capital with an efficiency that is notably lacking at Daimler-Benz despite its recent enthusiasm for shareholder value. If the two companies can help raise the other's game in these complementary areas, this could be a marriage made in heaven.

But what if, to pervert a celebrated aphorism of George Bernard Shaw, the outcome of the marriage delivers the engineer-

ing quality of the Americans and the capital productivity of the Germans? There lies the risk. But at least, in an industrial marriage, it can partly be managed.

The positive aspects of the combination include sound industrial logic in a market suffering from global overcapacity, such consolidation makes sense. So, too, does the management dynamic. While the get-together is billed as a merger, and the largest ownership stake is in US hands, there is no question that the Germans, led by Jürgen Schrempp, are in charge.

The big problem, as with all cross-border mergers, will be the harmonisation of the respective cultures. Since the holding company will have a two-tier board and operate on the basis of *Mitbestimmung*, or co-determination, Anglo-American governance practice will be interestingly tempered with a German social conscience. The scope for the mix to become poisonous lies most obviously in the area of pay, where the US managers enjoy dramatically higher rewards than their German counterparts.

That said, much of what is best in the US management culture has Germanic roots. And modern communications technology greatly reduces the difficulties in controlling a cross-border behemoth. Integration will no doubt be painful - but not necessarily insuperable.

Rethinking Iraq

After the brinkmanship of the weekend, the weapons inspectors of Unscam are set to have one last try. They arrive back in Iraq today, preceded by a US-UK warning to Saddam Hussein that if he further obstructs their task he will be bombed.

It is hard to know whether Unscam can uncover any more of Iraq's armoury of chemical and biological weapons. But it is practically certain that, if it looks like doing so, Baghdad will block it. The crisis is by no means over.

In particular, Washington and London appear determined to set Mr Saddam exacting tests of his willingness to co-operate, while there is still momentum behind their military build-up in the Gulf. As Washington confirmed at the weekend, this could mean an early end to Unscam's role.

While Unscam should of course be used to the full while it can be, its departure would force a policy re-think which is in any case long overdue. Since the end of the Gulf war, containment of Iraq has been based on blanket sanctions, intrusive weapons inspections and periodic military strikes to keep Baghdad in line. That policy appears to have run its course. It has been successful in preventing Mr Saddam threatening his neighbours. But what it never envisaged was that he would last this long, with such destructive effects.

After eight years, sanctions

have actually tightened his grip on power while his people starve; he manipulates the inspection regime to challenge the UN; and his ability to withstand occasional missile attacks plays well to the Arab gallery.

Washington, which ordered and then rescinded bombing raids at the weekend, appears resigned to moving from internal monitoring of Iraq to external deterrence, whereby aggression and non-compliance with UN resolutions by Mr Saddam would invite prompt retaliation.

In time, however, it should consider whether to refocus sanctions, and in particular whether to lift the embargo on Iraq's oil exports. Mr Saddam evades the embargo by smuggling enough to finance his regime; its effect falls primarily on his people. Where the screw needs to be tightened is on Iraqi imports. The western countries should intensify their co-operation with Iraq's neighbours, Turkey, Jordan and Iran, to stop smuggling. In addition, there needs to be a significant increase in monitoring of Iraqi imports to prevent arms and dual-use equipment going in.

The current sanctions regime is neither sustainable nor likely to end Mr Saddam's rule. A policy of firm deterrence coupled with newly targeted sanctions stands a better chance of minimising the threat he can pose to the region.

Richard Tomkins argues that the US tobacco settlement seems to set a worrying precedent: that the public sector can claim against all sorts of industries for the costs imposed on society by people's use of their products

The sum is breathtaking: almost the size of the annual US defence budget, bigger than Turkey's gross domestic product - bigger even than Japan's economic stimulus package.

If states across the US vote in favour of the deal, the \$208bn to be paid out by the tobacco industry over the next 25 years will be the biggest civil liability settlement in corporate history.

Tobacco manufacturers are hoping the deal will put behind them the worst of the litigation that has threatened them for the past few years. The cost will be passed on to smokers in the form of higher cigarette prices, and the companies will be able to go back to business as usual.

But US industry is worried that, far from marking the end of a litigation wave, the deal could open the floodgates to copy-cat lawsuits against other businesses as trial lawyers look for their next big target.

Even as the tobacco deal was being finalised last week, Richard Daley, the mayor of Chicago, announced that the city was filing a \$433m suit against gun manufacturers and distributors, claiming compensation for the cost of dealing with gun-related crime. Two weeks earlier, the city of New Orleans had also filed suit against the gun industry, seeking reimbursement of millions of dollars spent on police, medical and other city services in connection with crime, unintentional shootings and suicides.

The New Orleans suit is being master-minded by Wendell Grier and John Coale, two trial lawyers who led the charge against the tobacco industry. Several other cities and states, assisted by the trial lawyers, are believed to be preparing similar suits.

"The question is: which industry's next?" asks Larry Krans, president of the US Chamber Institute for Legal Reform, an affiliate of the US Chamber of Commerce. "Is it going to be alcohol? You can say the same thing about the alcohol industry that you can say about tobacco. It's a substance that if you use it improperly, can damage you or injure you, and causes auto accidents. Interestingly, unlike tobacco, alcohol can result in injury to innocent bystanders from drunk drivers."

"After alcohol, is it going to be the food industry? People eat high fat content foods and get heart attacks and so on that the states end up paying for. You can go on and on."

For example, you might sue the automobile industry to compensate for the medical costs of car accidents. Indeed, anyone associated with activities that have dangerous or unpleasant side-effects might be vulnerable.

"Anyone who doesn't think this is going to happen is badly mistaken," concludes Mr Krans "because it has already started with the gun industry."

So what new legal theories have prompted this litigation wave? And is it as dangerous as some fear?

In the case of tobacco, it started with entrepreneurial trial lawyers who had become frustrated at their lack of success in persuading juries to award damages to people who had developed smoking-related illnesses.

It was not that juries liked the tobacco industry, or even



thought it had behaved very well. But they clung to the common-sense view that the dangers of smoking were well known, and people who decided to take up the habit were responsible for the consequences of their actions.

Lawyers, however, were convinced that there must be a way of prising money from an industry whose products caused sickness and death, so they looked for a new approach. They found it by forming an alliance with the states, which bore the financial burden of treating smokers who had no medical insurance.

The approach was clever because it separated the issue of smoking from personal responsibility. The lawyers argued that, regardless of who was to blame for smokers' illnesses, it was certainly not the states: so the states should be compensated for the money they spent treating impatient smokers under the Medicaid health scheme.

Once this approach gained momentum, it became almost unstoppable. With the help of the trial lawyers - typically working for a contingency fee of 30-50 per cent of any winnings - nearly every state in the US sued. Some states even passed special laws that stripped away some of the tobacco industry's defences, stacking the odds in the plaintiff's favour.

In other countries, if issues like these are tackled at all, they are usually addressed by governments. Most European countries, for example, impose high enough cigarette taxes to outweigh the social costs of smoking, and severely restrict private ownership of handguns and assault weapons.

But in the US, federal and state politicians are hindered by powerful industry lobby groups. The tobacco industry, one of the biggest contributors to Republican

party funds, has been notoriously successful in staving off anti-tobacco legislation, and the gun lobby, represented by the National Rifle Association, has been similarly influential in limiting gun controls.

In the absence of government intervention, the courts have been playing a more active role. In the last 30 years they have become more sympathetic to plaintiffs at the expense of big business, expanding the standards of liability and increasing the grounds on which individuals can bring legal actions.

To this extent, says George

levels of excise taxes on cigarette sales; nor to the fact that the federal government recompenses states for half their Medicaid costs, yet is due to receive nothing from the settlement.

Even so, the precedent has now been set. The states and trial lawyers appear to have established the principle that the public sector can claim against any industry for the costs imposed on society by the use of its products. And if enough states or cities sue together, there is a good chance the industry will be forced to settle without any need for the states or city to prove their case in court.

Not everyone agrees that things look as bad as this for US industry. Charles Silver, professor of law at Texas University, says he will be "absolutely astounded" if the tobacco settlement is replicated elsewhere.

The tobacco case, he says, rested in part on the notion that tobacco companies had conspired to conceal the dangerousness of their products. "Where is the conspiracy among gun manufacturers to establish that their products don't kill?" he asks.

Still, the gun lawsuits are there, and many believe it is only a matter of time before the alcoholic drinks industry is targeted. Other candidates could include the car and motorcycle industries, chewing gum manufacturers, and almost anyone involved in the year 2000 problem.

"There no reason why suits on this theory should not be brought against almost any industry," says Prof Priest. "Actually, the largest source of hospital injury in the US is people that fall down stairs. Should we bring these suits against the lumber industry or the contractors who build the stairs? It's a very unfortunate failure to take the notion of personal responsibility seriously."

'Which industry's next? Is it going to be alcohol? After alcohol, is it going to be the food industry? People eat high fat content foods and get heart attacks that the states end up paying for. You can go on and on'

The gun cases now being brought closely resemble the tobacco litigation because they eliminate the issue of personal responsibility for the firing of the gun. They simply seek compensation from the manufacturers for the costs imposed on society by their products.

In other countries, if issues like these are tackled at all, they are usually addressed by governments. Most European countries, for example, impose high enough cigarette taxes to outweigh the social costs of smoking, and severely restrict private ownership of handguns and assault weapons.

But in the US, federal and state politicians are hindered by powerful industry lobby groups. The tobacco industry, one of the biggest contributors to Republican

OBSERVER

Hypo activity in Munich

The merger that gave birth to Germany's second-biggest bank, Bayerische Hypo- und Vereinsbank, is poised to claim its first victims. Edward Martin, the jovial, cigar-brandishing former chairman of Hypo-Bank, looks to have come second in a spat with former Vereinsbank boss Albert Schmidt, who heads the merged bank.

Schmidt caused a stir last month after HypoVereinsbank raised its risk provisions within weeks of the merger's completion. He blamed ex-Hypo officials, implicitly including Martin, for botching property deals, mainly in eastern Germany.

A furious Martin denied he had done anything wrong and hit back at Schmidt by describing him as unfit to run a bank.

A weekend meeting in Munich of HypoVereinsbank's supervisory board - which includes Martin - declared full confidence in Schmidt. The official line is that Martin's resignation from the board was not discussed, but the word in Munich is that he will soon be on his way. At 64, it could be presented as a natural move into retirement.

But other, younger, heads look set to roll. The board promised "a conceptual reorganisation with a corresponding change in

management responsibilities". Sounds painful for someone.

Package deal

Taichi Sakaiya, head of Japan's economic planning agency, can't have enjoyed explaining the latest ¥24,000bn stimulus package to sceptical journalists yesterday.

It was, after all, the third or seventh package in the past year, depending on how you define a package. Even Sakaiya had to admit that Tokyo was suffering package fatigue, though he insisted that the latest model was the definitive version.

But it is Sakaiya who acknowledged that the government's pledge to double the country's "living space" - by building homes rather than invading anyone - shouldn't be taken literally.

"In Japan we are always saying double this or that. But it is a slogan - it does not really mean we plan to double it," he said cheerfully. "Our plans are still a little undecided." Observer wonders when the next, more definite, package will be along.

Grace noted

Joe Clark has shown time and again he can be a graceful loser. But supporters of the former Canadian prime minister, who has just won back the leadership of the ruling Conservative party after 15 years, may want him to

cash in a bit of grace for some political knuckledusters.

The quickest way to revive his once-proud party - it ranks fifth in the House of Commons - would be a merger with the rightwing Reform party. But Clark disdains the prairie populists and their leader Preston Manning, a rival since their days as student politicians in Alberta.

Clark is best remembered for squandering his surprise victory over Liberal premier Pierre Trudeau in 1978. His first budget included prudent but desperately unpopular taxes on petrol.

Trudeau won a no-confidence vote and went on to crush Clark in the subsequent election. Clark responded with dignity, even calling a leadership contest - which he lost - after declaring that a two-thirds vote of support from his party was insufficient.

There is some surprise that Clark, now 59, has abandoned the role of elder statesman to re-enter the political arena. He certainly didn't sound like a man lusty for power when, in his first speech as leader, he attacked Reform rather than the governing Liberals.

The only result, one Reform member said yesterday, "is that we're going to re-elect Liberals forever".

Open channel

George Chrysosouris, the energetic boss of Greece's public telecommunications operator

OTE, is an expert on information systems. Judging from recent boardroom leaks, he might need to introduce a few more at OTE.

Chrysosouris has scored two big successes in recent weeks. He helped the government raise \$1bn through a secondary offering of OTE shares, stomping round Europe and the US to give more than 100 presentations to rake in the loot despite difficult market conditions.

Then he masterminded OTE's \$675m acquisition of Rom Telekom, the profitable Romanian state operator. It's Greece's first mega-deal in the Balkans so you'd think he'd be getting laurels.

Not a bit of it. Board members complain Chrysosouris doesn't tell them what's going on. This year they chucked out his business plan because it contained too few details.

Vassilis Rapanos, a top-notch banker who took over as chairman in September, is already rumoured to be on the verge of resigning.

Both Rapanos and Chrysosouris are friends of prime minister Costas Simitis. But if he has to choose between them, it may be easier to find a new job for Rapanos. There are still several state banks in need of an overhaul, while Chrysosouris is preparing OTE's bid for Bulgaria's telecoms operator. Information systems may have to wait.

Financial Times

100 years ago

An Artistic Swindle
Mr. Schneider, the manager of the Association of Parisian Artists, continues to inundate London with circulars from Paris. He announces that he will make "a limited number of our portraits of some prominent people absolutely free of charge." A large number of people must have been astonished to find themselves considered of such importance. If anyone were credulous enough to send a photograph of himself, he would shortly afterwards be informed that the enlarged portrait was ready and would be forwarded on receipt of the cost of the frame and carriage - an amount which, it is needless to say, will cover ten times the value of Mr. Schneider's productions.

50 years ago

Occupation Of Germany
Frankfurt, Nov. 16. The three Western Military Governors of Germany to-day reached "80 per cent agreement" on the form of an Occupation Statute, General Lucius D. Clay, United States Military Governor, said to-night. The statute would give Western Germany the first legal definition of its status since the occupation, Gen. Clay said.

THE LEX COLUMN

Nissan's junk

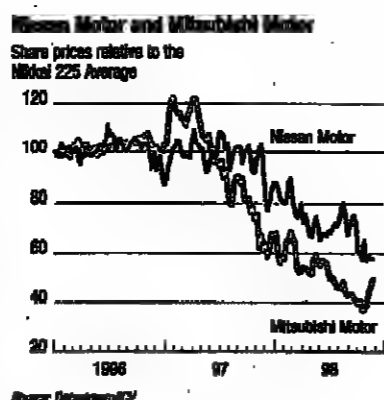
Nissan and Mitsubishi are in grave shape. News that Moody's, the US ratings agency, is mulling over giving them a sub-investment grade rating will only add to the Japanese carmakers' woes. With astronomical gearing and non-existent cash generation, neither can afford the higher financing costs a downgrade would entail. In Nissan's case, a vicious circle has long been at work as the company attempts to reduce its ¥3,900bn debt burden; cuts to capital expenditure have led to lacklustre products, flagging sales and falling market shares.

Is there a way out? Asset sales – such as the Nissan Diesel truck subsidiary – are proving difficult, often because of foreign fears of hidden liabilities to suppliers and customers. Share issues are a hard sell. Commercial lending is contracting fast. And support from *keiretsu* or associated business groupings is doubtful. Inevitably, perhaps, the hat is being passed back to the taxpayer. But subsidies, such as the proposed ¥100bn government loan to Nissan, are worthwhile only if tied to strict capacity-reducing measures. Given that a Japanese company would shy away from the rationalisation that would make a domestic merger pay, letting ailing carmakers go must seem the best solution. At least then a foreign company could come in with a clearer picture of the balance sheet nasties, as Merrill Lynch did with Yamaha, and take the credit for saving some jobs.

UK entrepreneurship

Britain has an enterprise deficit. At least, so thinks Tony Blair's government. And certainly compared with the US, Britain is less entrepreneurial. Executives are less willing to leave secure jobs in the private sector for start-ups; the same goes for scientists leaving the groves of academe.

But what should be done? On one view, government cannot change Britons into Americans – and it would not be a good idea even if it could. On another, the culture can and should be changed. First, the government could affect the mood music – for example, by singing even more lustily the virtues of getting rich. Second, it could tilt the tax system to make it easier to become rich. The prospect of big rewards would, in turn, draw



more people into entrepreneurship – so changing the culture.

The government has not quite articulated its vision this way. But that is the basic thrust of the various ideas floated in the chancellor's pre-budget statement this month and an accompanying report by Sir Peter Williams. Two proposals, in particular, stand out. First, that high-tech entrepreneurs should pay a reduced tax rate on share options. Second, that loss-making start-ups should gain a tax credit for research and development expenditure.

Such tax wheezes might quicken the nation's entrepreneurial spirits. But can they be justified? One line of argument might be that entrepreneurship is a good thing in itself and so should be subsidised. But is it really more morally valid than, say, teaching or nursing? Hardly.

A more promising line would be to argue that such tinkering would not amount to a subsidy – but rather remove existing handicaps. Remunerating people with share options rather than hard cash is such a case: companies can charge salaries against profit for tax purposes but cannot do the same with options. So cutting the tax on entrepreneurs' options would merely re-level the playing field.

Fair enough – up to a point. Insofar as there is a distortion, it affects everybody, not just entrepreneurs. So any tax-advantageous treatment for options should be available universally – not just to top managers, high-tech or even start-ups. Still, given that entrepreneurial companies rely more on equity to recruit management than mature companies, they

would be the main beneficiaries. A similar argument could be made for giving a tax credit to loss-making companies. The current system is asymmetrical: start-ups pay corporation tax if they are profitable but do not get a rebate from the Inland Revenue if they fail. Intellectually, a "negative" corporation tax has much to commend it. Still, if the government wants to go down this road, it should again be universal – not limited to companies with high research and development.

The biggest question, though, is whether the Blair government has shed enough of its socialist baggage to embark on policies that could end up making some people seriously rich.

BMW/Rover

What a pity there is so much political fuss about the sword of Damocles that BMW is holding over Rover's Longbridge plant. BMW is not only right to be seeking job cuts and changes to working practices to justify its £500m-a-year investment programme but it must also consider whether Longbridge, in a congested suburb of Birmingham, is the right place to build the new Mini and a medium-sized Rover model.

Annualised working contracts are the way of the future, as French employers grappling with the 35-hour week know all too well. Out go rigid shifts and overtime payments, in come flexible working hours matched to production peaks and troughs. BMW already has union agreement for such contracts at the engine plant it is building on the other side of Birmingham. With manufacturing unemployment rising and Rover losing money, the time is ripe to push through reforms that could cut £100m from Rover's £1bn employment bill.

But beyond manufacturing efficiency, BMW must decide where to make the new Rover models. The new Mini, due to start production in 2000, could be moved to Cowley, Oxford. This leaves the big question hanging over the Rover 300/400 replacement. Given Longbridge's convoluted layout, BMW believes it would cost £200m-£400m less to build a greenfield factory. That is what it should do, with no need for any state aid. The Longbridge site could then be redeveloped as a modern suburb.

Gore praises Malaysian pro-democracy protests

US vice-president backs reformers in snub to leader Mahathir

By Sheila McNulty and Peter Montague in Kuala Lumpur

US vice-president Al Gore praised "the brave people of Malaysia" for taking their pro-democracy campaign to the streets in protest against Mahathir Mohamad, the country's prime minister and Asia's longest serving leader.

Mr Gore's intervention on the eve of the Asia-Pacific summit yesterday sent a strong signal of support for the reform movement of Anwar Ibrahim, Malaysia's sacked and imprisoned deputy prime minister.

But his speech to international business leaders – made in the presence of Dr Mahathir, who looked resolutely away – caused consternation inside the Malaysian delegation.

"It is the most disgusting speech I've heard in my life," said Rafidah Aziz, Malaysian trade minister. "We do expect lectures... but not to run down the countries and incite things."

Mr Gore said democracy conferred a stamp of legitimacy on economic

reform. "And so, among nations suffering economic crisis, we continue to hear calls for democracy, calls for reform. We hear them today – right here, right now – among the brave people of Malaysia."

Mr Gore was standing in for President Clinton, who was in Washington dealing with the Iraq crisis. But the White House said Mr Clinton had intended to deliver the same message.

However, Mr Gore's remarks added a further jarring note ahead of today's opening of the Asia Pacific Economic Co-operation summit.

After the weekend's sharp exchanges between the US and Japan on trade liberalisation, the summit risks becoming a public relations disaster.

Hundreds of police armed with batons, water cannons and tear gas surrounded the centre where Mr Gore spoke, marching through the streets in a show of force to scare away Anwar supporters. Dr Mahathir had sought to keep Malaysia's political crisis off the Apec

agenda by suspending Mr Anwar's trial during the meeting.

But Lloyd Axworthy, Canada's foreign minister, and Sergio Marchi, trade minister, raised it during the ministerial portion, and had private meetings with Wan Azizah Wan Ismail, Mr Anwar's wife. Madeline Albright, US secretary of state, followed suit, provoking a heated public exchange with Mr Rafidah.

Mr Anwar was arrested in September under the Internal Security Act, which permits detention without trial. He emerged bruised after nine days, to be charged with 10 counts of sodomy and corruption. He has been denied bail.

Mr Anwar insists the charges have been fabricated as part of a conspiracy to keep him from challenging the administration of Dr Mahathir. His treatment has provoked unprecedented protests by thousands calling for an end to the 17-year rule of Dr Mahathir.

510th Asia crisis fund, Page 4
Lee Kuan Yew interview, Page 10

Italy faces rift with Turkey over call to extradite Kurdish leader

By James Hilly in Rome and Christopher de Bellaigue in Ankara

Italy and Turkey were last night edging towards a serious diplomatic dispute as Rome appeared increasingly reluctant to extradite Abdullah Ocalan, the leader of Turkey's outlawed Kurdistan Workers' Party (PKK) to Ankara.

In the first foreign policy crisis to hit Massimo D'Alema's government since its formation three weeks ago, Italian ministers were weighing up the political and diplomatic risks in granting Mr Ocalan political asylum in Italy or sending him back to Turkey.

Mr Ocalan, the main architect of armed Kurdish nationalism in Turkey, was arrested by Italian police in Rome on Friday and the Turkish government is filing a legal request for his extradition. The PKK has fought the Turkish army in a 14-year war that has cost 30,000 lives.

Mr D'Alema told journalists that the issue of whether to extradite Mr

Ocalan was "a complex and delicate matter", and would be judged by the court of appeal in Rome.

However, Interior ministry officials said final decisions on asylum and extradition would ultimately be taken at a government level and that political considerations would be taken into account.

Ismail Cem, Turkey's foreign minister, yesterday said Italian politicians were trying to put pressure on the judges not to extradite Mr Ocalan. "I think there is a bias in some political circles against Turkey."

Adding to the tension over the issue was the revelation that inmates in a Turkish jail had "taken hostage" an Italian inmate, demanding Mr Ocalan's extradition to Turkey. Mr D'Alema said his government would "not succumb to pressure or blackmail" in dealing with the Ocalan case.

Lamberto Dini, Italy's foreign minister, is thought to be keen to extradite Mr Ocalan to Ankara, fearing that a refusal to do so would trigger

a serious diplomatic and trade dispute between two leading Mediterranean countries.

However, several parties in the ruling coalition, including the communists and the greens, support the Kurdish cause and a decision to extradite Mr Ocalan to Turkey could trigger tensions within the new ruling coalition.

Moreover, if Mr Ocalan is sent back to Turkey, police can expect serious trouble in Rome where more than 1,500 Kurds are already protesting against his arrest. A major demonstration is expected today.

Mr D'Alema hinted at his unease over extraditing Mr Ocalan by underlining that the Italian constitution rules out extradition of criminals to countries such as Turkey which still have the death sentence.

Turkey has been moving to overcome this obstacle. Its justice ministry yesterday completed a draft law to abolish the death penalty and said it expected the cabinet to adopt the change when it meets today.

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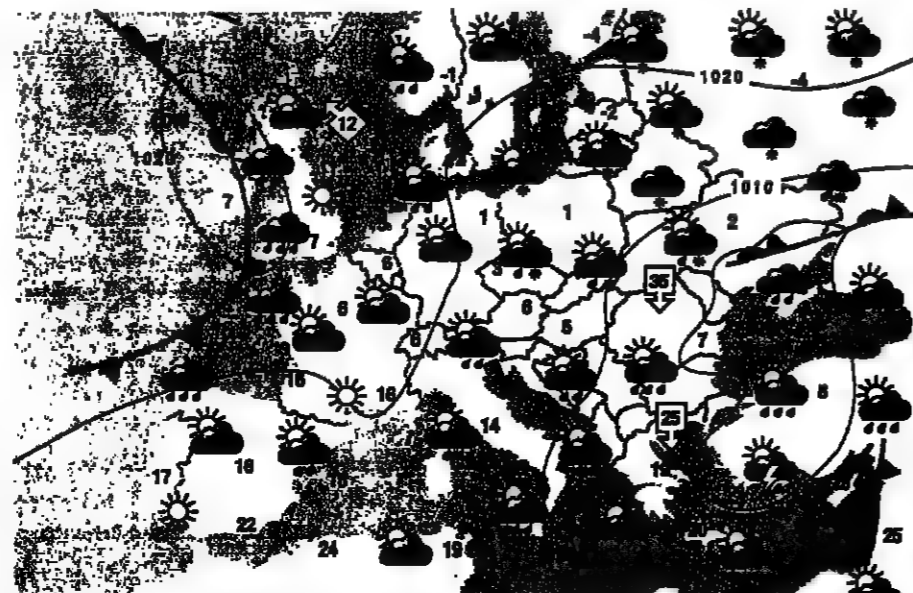
FT WEATHER GUIDE

Europe today

Most parts of Scandinavia will be dry. The Low Countries will have showers. Germany, Austria and Switzerland will also have showers but many parts will be dry. Most of France will be dry but rain will break out later in the north-west. The Mediterranean will also have showers and these will be heavy and prolonged in the east with the risk of thunderous downpours. Eastern Europe will be cold with snow showers.

Five-day forecast

The Mediterranean will be very showery, the showers prolonged with thunderous downpours in places. Eastern Europe will remain cold with snow at times. North-west Europe will be mainly dry and cold, with the exception of a few well scattered showers. Scandinavia will be cold with snow showers in the west.



Situation at midday. Temperatures maximum for day. Forecasts by FT WEATHER CENTRE

TODAY'S TEMPERATURES

Location	Temp	Location	Temp	Location	Temp	Location	Temp	Location	Temp
Madrid	14	Paris	11	London	10	Berlin	9	Rome	12
Amsterdam	10	Brussels	11	Frankfurt	10	Munich	11	Vienna	12
Zurich	11	Stockholm	8	Helsinki	7	Tallinn	6	Riga	5
Warsaw	4	Budapest	5	Prague	6	Bratislava	7	Sofia	8
Skopje	9	Belgrade	10	Zagreb	11	Ljubljana	12	Trieste	13
Naples	14	Rome	15	Palermo	16	Catania	17	Syracuse	18
Athens	19	Thessalonika	16	Sofia	17	Belgrade	18	Budapest	19
Warsaw	20	Prague	21	Bratislava	22	Sofia	23	Skopje	24
Belgrade	25	Zagreb	26	Ljubljana	27	Trieste	28	Naples	29
Rome	30	Palermo	31	Catania	32	Syracuse	33	Athens	34



This announcement has been approved by Deutsche Bank AG London, which is regulated by the Securities and Futures Authority for the conduct of investment business in the UK.

November 1998

DAIMLERCHRYSLER

US\$46,000,000,000

DaimlerChrysler AG

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DaimlerChrysler AG

Global Registered Share Program

Deutsche Bank

acts as German & Co-ordinating Registrar and Global Co-ordinator

US\$75,000,000,000

merger of

Daimler-Benz Aktiengesellschaft

with

Chrysler Corporation

to form

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INSIDE

Oracle and Microsoft clash at Comdex
Microsoft and Oracle, the two biggest groups in the software industry, have sparred over the sector's direction for years. Things have come to a head with Oracle's launch, at Comdex, a trade fair, of software that will compete head-on with Oracle's database products. Page 21

Ciba-Clariant link fails to impress
Last week's announcement of the tie-up of Ciba Specialty Chemicals and Clariant has failed to arouse the sort of investor enthusiasm normally expected after a merger between the two biggest companies in an industry. Page 20

Cereals farmers braced for bad news
The European Commission's proposals for cereals industry reform have spread gloom among farmers across the continent. Most countries have doubts about the plans, which include a 20 per cent cut in guaranteed prices paid when markets dip. Commodities, Page 36

Dixons hails free Net service
Dixons, the UK's largest high street electronic retailer, says its recent launch of Britain's first free internet service has been spectacularly successful. This could have profound implications for the UK internet market. Page 28

Bangkok pays price for rally
The 11 per cent decline in the Thai stock market last week, the largest such retreat in Asia, was the price of success. After the SET index's 82 per cent run-up since its 11-year low on September 4, some profit-taking was bound to set in. Emerging Market Focus, Page 52

Citigroup creates one operating body
The two new heads of Citigroup's corporate and investment banking arms have created one operating committee to oversee the Citicorp corporate bank and Salomon Smith Barney, the investment bank. The move is seen as the first step in the integration of the corporate and investment banking businesses. Page 21

End of row lifts German bank shares
The share price of Bayerische Hypo- und Vereinsbank, Germany's second largest bank, rose by more than 4 per cent as investors expressed relief at the apparent end of a public row between two of the bank's creditors. Page 20

Beeson considers takeover bids
Beeson Gregory, the UK stockbroking and corporate finance house specialising in smaller companies, is considering several takeover approaches. The approaches are believed to have come from rival firms in continental Europe who are seeking to expand in London. Page 28

Crompton Greaves eyes buy-back
Crompton Greaves, one of India's biggest manufacturing groups, has suffered like other Indian concerns since India's economy began to slow two years ago. Last week's announcement by Kewal K. Nohria, chairman, of plans that may lead to a share buy-back programme, is a sign of how far attitudes are changing. Page 24

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GM may ask \$10bn for Delphi

By Richard Waters in New York

General Motors yesterday put a price of \$8bn to \$10bn on its parts making operation, Delphi Automotive Systems, and vowed to push ahead with shedding the business before the end of next year despite unease among labour unions. The move would cut Delphi free of GM just as labour agreements come up for renegotiation.

Delphi has made no secret of its desire to cut costs to make itself more competitive with other, stand-alone parts companies, most of which are non-unionised.

The bad labour relations that have plagued GM in recent years have also hurt Delphi, delaying efforts to make it more profitable.

According to a filing with the Securities and Exchange Commission yesterday, a strike in June and July left Delphi with a loss of \$128m in the first nine months of this year, compared with a \$76m profit the year before.

Details of the separation came as GM announced its intention to raise \$1.5bn through an initial public offering of Delphi, selling 15-19 per cent of the company. It would then shed the rest of its stake before the end of 1999, either

Car maker vows to shed parts operation within a year

by distributing shares to GM stockholders or allowing them to swap their existing shares for Delphi stock.

The United Auto Workers union, which represents more than half of Delphi's North American employees, is thought likely to resist any attempt to separate Delphi workers from the broader GM labour pact when the three-year agreement expires next September.

Delphi said yesterday it was in discussion with unions but would not comment on whether it would seek to negotiate its own labour pacts separately from GM. Any attempt by Delphi to squeeze greater concessions out of the UAW would run counter to other recent cases in which automakers had spun off parts operations, said Doug Fraser, a former chairman of the UAW.

Workers at two such companies, American Axle and Detroit Diesel (both formerly part of GM), were given the same terms for a period of three years, with an option to move back to the former parent, he said.

Asked whether Delphi could break away from that pattern, he added: "They may want to, but they would be hard-

pressed to do it." An effort to create better labour relations is one of the considerations behind the spin-off of Delphi, according to yesterday's regulatory filing. Delphi also said that it planned to become far less dependent on sales to General Motors.

The company generated 18.3 per cent of its \$31.5bn in sales last year from customers other than GM, up from 15.9 per cent in 1995.

A strike at a Delphi parts plant earlier this year, which helped bring all of GM's North American production to a halt, cut into its business with its parent, lifting sales to other companies to 21.5 per cent.

France Telecom aims to generate a third of its revenues from international activities by 2005 by capitalising on its Global One alliance with Deutsche Telekom and Sprint of the US, Michel Bon, chairman, said yesterday.

The telecommunications company, which generates about 8 per cent of its total revenues outside France, saw revenues from its domestic fixed-line operations fall 5.4 per cent to FF759.5bn (\$12.7bn) in the nine months to the end of September. Revenues were hit by the big reductions in tariff charges France Telecom made to rebalance prices and meet competition.

Mr Bon said the main impact of the reductions was now behind the company and that he expected revenues from fixed-line operations to begin to rise again next year. But France Telecom wanted to see international operations, particularly in Europe, contribute 15 per cent of revenues by 2001, rising to a third within five years. Further growth would come from the expansion of mobile telephone operations and from its on-line operations.

Mr Bon was speaking in London during the presentation to investors of a FF750bn offering of shares and convertible bonds that would see the state's stake fall from 75 to 62 per cent.

The company is increasing its share capital by 5 per cent to raise FF750bn. Mr Bon said FF750bn of the new funds would be used to pay for the development of its international operations, centred on the Global One alliance, and on MetroHolding, its three-way UK venture with Deutsche Telekom and Ennergis, the UK telecommunications group.

The remaining FF750bn of new proceeds will be used to pay for a 2 per cent stake in Deutsche Telekom, part of an exchange of shareholdings between Europe's big two telecommunications operators that seals a long-standing partnership.

Mr Bon said indications that the price range would be FF7350-370 per share were entirely dependent on the company's share price in the market before a final price was set at the end of November.

Moody's looks at downgrading Nissan and Mitsubishi debt

US rating agency's move could raise cost of borrowing for car groups

By Paul Abramson in Tokyo

Moody's, the US ratings agency, yesterday warned that it was considering downgrading the debt of Nissan and Mitsubishi Motors, the Japanese automotive groups, to non-investment status.

The move would prevent many international investors holding the groups' bonds, dealing a serious blow to both companies, which are burdened by large debts.

"This is significant for both groups," said Christopher Richter, automotive analyst at HSBC Securities in Japan. "Mitsubishi Motors has gearing of 350 per cent and Nissan 300 per cent. A lot of their debt matures soon and needs to be refinanced. A downgrade would make it even harder to find new financing and would raise the cost of borrowing."

Moody's said it was concerned about the continued economic deterioration in Asia, and particularly Japan, as well as the groups' possible financial exposure to non-consolidated affiliates.

"A lot of the automotive groups have important relationships with dealerships and suppliers and we need to establish how much they will have to support these affiliates," said Takahiro Morita, senior vice-president at Moody's in Japan.

Mr Morita said the review would include an assessment of the strength of the companies' relative balance, or business groupings. Nissan is part of the troubled Fuyo group, while Mitsubishi Motors is part of the stronger Mitsubishi group.

Yoshihiko Hanawa, Nissan president, said his company would strive to avoid a downgrade. "We are making efforts to reduce our interest-bearing debt and these are proceeding well, so perhaps the problem is insufficient explanation on our part," he said.

Analysts said about half the reviews end in downgrades. The process normally takes two to three months. Merrill Lynch estimates that Nissan and Mitsubishi are having to pay more than 140 basis points over yen London interbank offered rate, compared with Toyota, their rival, which is paying Libor. Toyota's credit rating is A-1, compared with Nissan's one notch above non-investment grade, for Nissan and Mitsubishi.

Nissan's shares closed unchanged at ¥330, while Mitsubishi's rose 8 per cent to ¥301.

Last month, Nissan revealed that 10 banks had provided it with a ¥800bn (\$4.1bn) credit line aimed at offsetting the tight financing environment.

Japan Development Bank, the government sponsored financial institution, is preparing to extend up to ¥100bn of loans to Nissan.

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Bronfman tightens control of Seagram empire

By Christopher Parker in Los Angeles

Edgar Bronfman Jr yesterday moved to consolidate his control over all corners of the Seagram empire with the removal of Frank Biondi, chairman of Universal Studios entertainment division.

The long-expected resignation coincided with a shake-out which will divide the group into three sectors - music, now part of Universal; drinks; and entertainment interests in film, television and theme parks.

It ended a long period of discord between the two men and reflected increasing pressure on Mr Bronfman from Wall Street and family members, notably his uncle Charles - keeper of the family fortune - to improve results, according to people close to the company.

Ron Meyer, a former talent agency executive and now chief operating officer at Universal, takes charge of entertainment and will report to Mr Bronfman.

As expected, Doug Morris, music chief, and John Hunter and Steve Kalogher, the heads of the wine and spirits arm, take up similar positions in the hierarchy.

The moves left in doubt the future of Casey Silver, the film studio chief whose productions this year have left Universal in ninth place in terms of US market share.

Meet Joe Black, a costly drama starring Brad Pitt, failed to live up to expectations when it opened at the weekend in third place in the box office rankings. The highly-anticipated sequel to *Babe* is being re-edited after lukewarm responses from preview audiences.

While restructuring had been expected to follow the \$10.4bn acquisition of the PolyGram music and film business, Mr Biondi's departure had been predicted since last year after Mr Bronfman set about disposing of most of Universal's TV assets without telling him.

Even before that, the relationship was strained as efforts to improve Universal's prospects failed.

British Steel yesterday blamed a 34 per cent cut in first half pre-tax profits on tumbling European prices, and forecast a loss for the year unless trading conditions improve.

The pre-tax profit of \$108m (\$179.2m) compared with \$143m in the first half of last year. But the gloomy full year forecast cut 1 per cent off the share price, which closed 7½p down at 10½p.

Sir Brian Moffat, chairman and chief executive, attributed the poor first half performance to an upheaval in world steel trading - including a surge of imports into the European Union - caused by the Asian economic crisis.

The company was also hit by losses at Avesta Sheffield, the Anglo-Swedish stainless steel specialist majority-owned by British Steel, where low prices and heavy restructuring costs



Fuel injection: Eddie Jordan, founder of the Jordan Grand Prix F1 racing team, with Dominic Shorthouse of US private equity group Warburg, Pincus, which is injecting \$80m into the team. "This gives me the ability to challenge for the championship," said Mr Jordan. Full Story, Page 28

Moody's looks at downgrading Nissan and Mitsubishi debt

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BANKING COMMITTEE TO CONTROL CORPORATE AND INVESTMENT BUSINESS

Citigroup creates single operating body

By Tracy Corrigan in New York

Michael Carpenter and Victor Meneses, the two new heads of Citigroup's corporate and investment banking businesses, have created a single operating committee to oversee the Citibank corporate bank and Salomon Smith Barney, the investment bank.

The move is seen as the first step in the integration of the corporate and investment banking businesses, which have proved a problem area following the

merger of Citicorp and Travelers Group in October to create Citigroup, the largest US financial services group. "We are in the process of integrating the staff organisations, but for the time being the two staffs will continue to operate separately," Mr Meneses and Mr Carpenter wrote in an internal memo to staff, dated November 13.

Difficulties in bringing together its corporate and investment banking businesses led to the forced resignation earlier this month

of Jamie Dimon, the newly appointed president of Citigroup and co-chief executive of Salomon Smith Barney. "It wasn't working," said Sandy Weill, co-chairman of Citigroup, who was thought to have been grooming Mr Dimon to succeed him. Mr Carpenter and Mr Meneses have been charged with accelerating the integration of the two businesses. Deryck Maughan, the former head of Salomon Brothers and newly appointed vice chairman of Citigroup, is overseeing the

integration. Mr Maughan is among the 20-strong members of the new operating committee which will meet weekly. In the memo, Mr Carpenter and Mr Meneses wrote that they were "committed to resolving decision items rapidly". The committee will look at how to create "the most effective and efficient organisation going forward," the memo said.

There will also be quarterly meetings which will incorporate managers from the international business, it

added. "This is the first concrete step," said one Salomon staffer. "I still have a wait-and-see attitude but it's the first sign that decisions are being made." However, morale among investment bankers was further hit by an interview in the New York Times on Sunday with Citigroup co-chairman John Reed, in which he said that investment banks "sort of fly in and fly out" of markets. "I think banks have a more healthy relationship on the corporate side with their customers

than do the traditional investment banks," Senior managers yesterday attempted to soothe any hurt feelings among investment bankers, in an effort to ease tensions between the commercial and investment banking sides. Among the operating committee members are co-heads of global equities Bob Difazio and Arthur Hyde, who are running that business following the departure last week of Steve Black, widely seen as another casualty of the integration difficulties.

Software giants put their case for world domination

Microsoft and Oracle do public battle at computer industry fair, report Roger Taylor and Louise Kehoe

Comdex, one of the computer industry's largest trade fairs, has become the battleground for a long-anticipated clash between the two largest companies in the software industry.

Microsoft and Oracle are on a collision course with each attempting to undermine the other's stronghold. Microsoft aims to unseat Oracle as the leading supplier of database software, while Oracle is determined to undermine Windows, Microsoft's computer operating system software.

Bill Gates and Larry Ellison, the software industry's best known billionaires, opened the Comdex event in Las Vegas, attended by more than 300,000 industry representatives, with sharply contrasting views of the future of computing that support their companies' marketing strategies.

In his opening address on Sunday night, Mr Gates, Microsoft chairman and chief executive, described a world in which the personal computers running the Microsoft Windows operating system become ever more powerful and ubiquitous.

"PCs will go far beyond what systems have been able to do in the past. The PC model has won on the desktop. It will prove itself again [in other areas]," he said.



Screen dream: Larry Ellison wants new computers dedicated to specific tasks

AP

These would range from powerful servers using multiple microprocessors to tiny hand-held devices, he said.

In contrast, Mr Ellison, chairman and chief execu-

tive of Oracle, the second largest software company and Microsoft's arch-rival, argued in his Monday night speech that the proliferation of PCs was unsustainable

because it would lead to highly complex information technology systems. Instead, Mr Ellison proposed a new approach in which computers are dedi-

cated to specific tasks. Specifically, he announced plans to work with leading computer manufacturers to develop computers that run Oracle's database software without the need for a sophisticated operating system such as Microsoft's Windows.

The tension between Microsoft and Oracle is not new. The companies have been sparring over the direction of computing for several years. But the rivalry has come to a head with Microsoft's launch, at Comdex, of powerful database software that will compete head-to-head with Oracle's flagship database products.

Mr Ellison used his keynote address to press home his view that "internet computing" - in which computers dedicated to specific tasks are linked via standard networks - would displace the use of general purpose PCs and servers.

Internet computing would make the Microsoft Windows operating system increasingly irrelevant, he predicted. Speaking in advance of his presentation yesterday, Mr Ellison described a battle between "Windows and the internet everywhere." He believes internet computing will establish itself as the clear winner in

the next couple of years. Mr Gates' speech on Sunday night made no mention of this potential challenge. Instead, he focused on how Microsoft could extend its operating system with new features such as technology to improve the resolution of text on computer screens. He also stressed the importance of improved user interfaces using both voice recognition and natural language.

Despite their differences, both executives took up one common theme. Both see a need for greater simplicity in computing.

While Mr Gates intends to achieve this through the use of sophisticated technologies that enable computers to adapt to the way users work, Mr Ellison favours the more radical approach of dedicating computers to specific tasks - whether they be database servers or desktop network computers.

However, both are dependent upon the manufacturers of computer systems to further their goals. In this regard, Microsoft is clearly ahead of the competition. The company has strong ties with most of the world's leading computer companies. Yet Mr Ellison maintained that his new approach to computing will appeal to computer makers because it eliminates Windows, cutting their costs.

CANADA STORES RENOVATED TO ATTRACT YOUNGER CUSTOMERS

T. Eaton chief goes as retailer issues warning on earnings

By Scott Morrison in Toronto

T. Eaton, the Canadian retailer, yesterday announced the resignation of its chief executive and warned that third-quarter earnings would be less than expected due to lower than anticipated sales and pressure on margins.

Canada's second oldest retailer, which emerged from bankruptcy last year, said overall sales in the third quarter ended November 7 continued to grow although not as quickly as the company had forecast. Eaton said sales of priority fashions continued to increase, but sales of hard goods had fallen off more quickly than anticipated.

Eaton, which operates 64

department stores, is attempting to update its old-fashioned image by renovating stores, withdrawing from the hard goods business and offering brand-name fashions to attract younger shoppers. But Jim Okamura, a retail analyst with JC Williams Group, suggested that the company has yet to clearly define its new image.

The company attributed lower-than-expected results to a restructuring provision and other costs associated with the exit from hard goods, promotions to clear inventories, and a moderation of consumer confidence. Eaton, which was expected to earn 35 cents a share in the third quarter, would not provide more details about

its third-quarter results. It reported a second-quarter operating loss of C\$20m (US\$12.9m), and a net loss of C\$44m, on revenues of C\$374m. It said it expected to report an operating profit for fiscal 1999, but given restructuring costs, declined to forecast when it would report a net profit.

Eaton also announced the resignation of George Kosich, who was appointed president and chief executive in June 1997 with a mandate to guide the company through a court-supervised restructuring and develop a new business strategy.

Brent Bellantyne, Eaton chairman and chief executive, said yesterday that Mr Kosich had achieved those goals

and that new leadership was appropriate to move the company forward.

Some observers were sceptical of Mr Bellantyne's claim that Mr Kosich's resignation was not related to the profit warning. The chairman praised the outgoing chief executive's strategy and expressed confidence that the company's business plan would eventually show positive results.

But the short-term outlook for Eaton's investors remains bearish, as the stock slipped 35 cents to C\$4.70 following the announcement. Issued at C\$15 a share during the company's C\$150m IPO in June, Eaton's stock has been eroded as the company revised earnings forecasts downwards.

Bristol-Myers to take breast implant charge

By Tracy Corrigan

Bristol-Myers Squibb, the US-based pharmaceuticals company, said yesterday that it would take a fourth-quarter charge of \$400m to increase its reserves for liability in breast implant litigation.

The charge is expected to cover the final cost of its breast implant product liability. The company said in a statement that the charge should allow it to "complete its trial and settlement strategy, putting the issue behind it".

The charge will be used to cover anticipated payments under a 1995 global settlement and also the cases of women who opted out of that settlement.

Most breast implant cases against three leading manufacturers - Baxter International, 3M and Bristol-Myers - were covered by the 1995 settlement. Last week, Dow Corning, the largest manu-

facturer, which was not covered by that plan, filed an agreed settlement totalling \$3.2bn with thousands of breast implant litigants. Dow Corning went into Chapter 11 bankruptcy protection in 1995 as claims mounted and a settlement is seen as a lynchpin of its bankruptcy restructuring.

Bristol-Myers shares rose 5 1/4 to 11 1/4 in early trading yesterday.

Some of the additional reserves may also be used to cover liability as a result of prescription drug pricing litigation. The company said that an estimated \$375m-\$435m of the reserves, after tax and additional expected insurance recoveries will be for breast implant liabilities.

Both Moody's and Standard & Poor's, the US-based ratings agencies, reaffirmed Bristol-Myers' triple-A long-term debt rating. S&P cited the company's net worth of \$1.5bn in cash, limited debt and broad financial strength.

Bad loans rise at Venezuela banks

By Raymond Cook in Caracas

The loan portfolio of Venezuela's banks has continued to deteriorate in recent months, reflecting the slowdown in economic growth and the impact of high interest rates. Bad loans have jumped 71 per cent in only four months from \$514.6bn in June to \$825.0bn (\$440m) in October, according to the latest report from Softline Consultores, a leading financial consultancy.

Bad loans now make up 4.78 per cent of the overall loan portfolio, up from only 2.26 per cent in January, said Softline.

With economic and political uncertainty before presidential elections in December, interest rates shot to an average 77 per cent in September, dramatically slowing economic growth and diminishing the private sector's ability to service its debt.

"There is very little credit demand," said Juan Carlos Zorrilla, head of Banco Provincial, the country's largest bank, this month. Interest

rates on commercial loans have since fallen but are 20 per cent above the expected year-end inflation rate of 23 per cent.

"We have not touched bottom yet," said Jose Grasso, head of Softline, "we expect the [bad loan] rate to hit 6 per cent by year-end and to continue rising during the first quarter of 1999."

The latest figures come a fortnight after the Superintendency of Banks sought to offset the risk of bad loans by requiring additional reserves for high-rate loans and prohibiting these to be renewed beyond their original expiry date. The banking sector rejected the move as an attempt to control interest rates that could weaken rather than strengthen smaller financial institutions.

Yet analysts indicate that Venezuelan banks today are much more solid than in 1994, when half of the financial sector collapsed and was bailed out by the government. Loan provisions are, on average, much better and regulators have tightened their control.

NEWS DIGEST

SOUTH AFRICA

Barlow to restructure as net profits for year fall

Barlow, the South African conglomerate, yesterday announced a slight decline in net profit for the year to September 30 but said its extensive programme of disposals and restructuring would yield an improvement in earnings in 1999. Net profit excluding exceptional items fell 1 per cent to R680m (\$118.3m) from R685m the previous year, on turnover of R20.54bn, up from R19.38bn. Tony Phillips, the new chief executive, said difficult conditions in South Africa were offset by growth in Europe and the US. International operations accounted for 57 per cent of Barlow's net profit, he said, compared to 37 per cent in 1997.

Mr Phillips said Barlow, like other big South African companies, was considering moving its primary stock exchange listing from Johannesburg to London, but discussions were not at an advanced stage. "We're a lot happier than we were a year ago with the structure of the group," Mr Phillips said. "We have modernised and removed substantial costs from our South African manufacturing facilities. We've disposed of underperforming and non-core businesses and substantially strengthened the balance sheet. We're expanding in Europe, in the US, in Russia and in Africa."

Recent deals completed by Barlow include the sale of half its stake in Compaq, the information technology group previously known as Perseus Q Data Holdings, for R1.38bn. The group is also selling its paper businesses in Europe and its South African building materials operations. Barlow's capital equipment division, which supplies Caterpillar machines in various African and European markets, is the biggest contributor to turnover and profit. The company said strong growth in Spain and Portugal and expansion in Africa had more than compensated for lower income from South Africa itself.

Dividends for the year were unchanged at a total of 124 cents. Victor Mallet, Johannesburg

ELECTRONICS

Sales rise boosts Tadiran

Tadiran, Israel's leading electronics company, yesterday said net income rose 13 per cent during the first nine months, and was fuelled by increased sales from more profitable products and projects.

Net income climbed from \$49.8m in the first nine months of 1997 to \$56.3m in the period this year. Revenues rose 10 per cent from \$855m to \$884m over the same period. Analysts said Tadiran had successfully offset the loss of its biggest domestic client last year with an increase in exports, which now account for about 57 per cent of the group total.

Earlier this month, Koor Industries, Israel's biggest holding company and Tadiran's parent, launched a plan to take Tadiran private by buying all outstanding shares for Shk134 a share. The move is part of Koor's strategy of consolidating and rationalising its high-growth technology assets. Shares in Tadiran closed down 23 per cent yesterday to Shk129.6 in Tel Aviv yesterday. The shares are also listed on the New York Stock Exchange.

Avi Meshulam, Jerusalem
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Privatisation International, October 1991-1998

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European Domestic Markets

Euromoney, September 1998

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Top European FX Bank

Euromoney, May 1998 & Corporate Finance, September 1998

Credit Derivatives

No.1

Best MTN House

Euromoney, July 1998

Leveraged Finance

No.1

Lead Debt/Mezzanine Arrangers on Continental European Buyouts

Acquisitions Monthly, May 1998

Derivatives

No.1

Corporates' Choice for Derivatives

Risk, May 1997/1998

Research

No.1

Best Advice and Research on the euro

Euromoney, May 1998

Project Finance

No.1

Global Project Finance Adviser

Project Finance International, January 1992-1998

Equities

No.1

Equity Research Database in Europe

Reuters Survey, 1998

*Euromoney, September 1998
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SEAGRAM - AN ALTERED IMAGE

EDGAR BRONFMAN JR AIMS TO FOCUS ON ENTERTAINMENT JUST AS THE MUSIC INDUSTRY FACES SLOWER GROWTH

More melodies than martinis

By Alice Rawsthorn and John Willman

Losing the head of your entertainment division on the eve of concluding an \$11bn bid to expand its sounds like bad timing, but that is what Edgar Bronfman Jr, Seagram chief executive, did yesterday when he announced the departure of Frank Biondi, chairman of Universal Studios.

The news is scarcely a surprise in a year when no Universal film has earned more than \$40m at the US box office.

His fate seems to have been sealed by the critical drubbing of *Meet Joe Black*, the \$90m Brad Pitt picture which opened only third at this weekend's box office, and by last week's news that a \$60m *Babe* sequel had been postponed by editing delays.

Mr Biondi's widely leaked departure is the latest in a series of blows for the drinks and entertainment combine since Mr Bronfman unveiled plans in May to buy PolyGram, the world's biggest music group. Currency changes have added \$600m to his original \$10.4bn offer price and Seagram's hopes of raising \$750m by selling PolyGram's film

division have evaporated. Investors have already expressed their opinion of the PolyGram deal, with Seagram shares down 24 per cent against Standard & Poor's Composite Index since the acquisition was announced. S&P has downgraded its credit rating from A to BBB-, one category above junk bonds.

With the PolyGram bid scheduled for completion in the second week of December, five weeks later than expected, Mr Bronfman now faces the challenge of restoring investor confidence in the company his grandfather created.

The crux of that strategy is to turn Seagram from a drinks business into one dominated by entertainment. Mr Bronfman began in 1995 by buying 80 per cent of the old MCA entertainment empire (now Universal Studios) for \$5.7bn. Universal's film business has since flourished, culminating in Mr Biondi's departure, but its smaller music division has thrived.

Mr Bronfman, a part-time songwriter, has a love of music and is said to feel more comfortable with it as a business than the volatile, highly leveraged film indus-

try. When Philips, the Dutch electronics group, put its 75 per cent stake in PolyGram up for sale this spring, he jumped at the chance of turning Universal Music into a global powerhouse.

The acquisition will change the group from one that derives less than 60 per cent of its revenues from entertainment to one more than 70 per cent dependent on music, films and theme parks. Drinks falls from more than 40 per cent to less than 30 per cent of the business.

The Bronfmans, accustomed to running Seagram as a family firm rather than a public company, will own 23 per cent of the new group against 37 per cent at present and Philips will become a sizeable minority shareholder with up to 12 per cent.

Mr Bronfman is gambling that by adding PolyGram's 17 per cent of the \$38bn global music market to Universal's 6 per cent, he can cut their combined costs by at least \$275m a year. Seagram has hired Boston Consulting Group to advise it on the restructuring, which is expected to shed 20 per cent of PolyGram and Universal Music's

15,500-strong workforce. A few senior posts have been confirmed, but details of other changes have leaked out in the press and the mood at both PolyGram and Universal has become increasingly insecure as the bidding process has dragged on.

Such uncertainty is damaging in a fiercely competitive market like music, where successful companies need not only to motivate their employees but to win the confidence of their often-temperamental recording artists too.

So far, PolyGram and Universal Music appear to have emerged unscathed: PolyGram performed poorly in the first half of the year, but rallied in the third quarter and is on course for a strong fourth quarter. Yet music is such a fast-changing industry, where companies must constantly reinvent themselves, that the damage caused by six months in which PolyGram and, to a lesser extent, Universal have found it hard to sign new acts or distribution deals may not emerge until next year.

Mr Bronfman claims that the financial benefits of the restructuring will compen-

sate for the pain and expense, estimated at up to \$500m.

However, pessimists suspect that Seagram may have become the world's biggest music business at a time when the once-robust industry is entering a new cycle of slower growth, increasingly fickle consumer taste and rising internet piracy. If these fears prove founded, the outlook for the enlarged Universal Music may be darker than Seagram hopes.

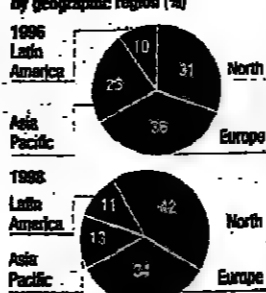
All the management attention on the entertainment side has left the drinks side as something of a backwater when the economic and currency crises in Asia have hit it hard.

Almost a quarter of the spirits and wine division's sales were in the Asia-Pacific region two years ago, a figure that has fallen to 13 per cent - the main cause of a 20 per cent fall in the division's earnings in the year to June 98.

Industry observers have speculated that Mr Bronfman has little love for the wines and spirits division and that the only obstacle to selling it was the emotional attachment to it of older members of his family. The

Shaken and stirred

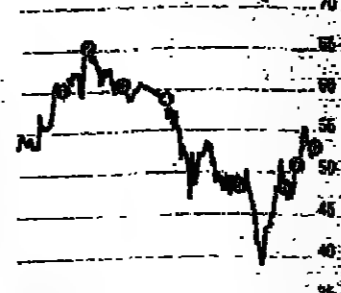
Spirits and wine attributed revenues by geographic region (%)



Top spirit companies by revenues (\$USbn)

Diageo	8.5
Seagram	4.8
Allied Domecq	4.0
Bacardi-Martini	2.8
Perrier Ricard	1.7
Brown-Forman	1.3
Remy-Cointreau	1.3
Fortune Brands	1.2

Share price (\$)



business is profitable and generates strong cash flows, but it is part of a sector that is slow-growing in the advanced economies and exposed to volatility in the emerging markets, where there is greatest potential for growth.

But the merger last year of

Grand Metropolitan and Guinness to form Diageo, the world's largest drinks group, has forced the whole industry to reassess strategy. Diageo has drinks sales of more than twice its nearest competitors, a presence in all the world's big spirits markets and an array of leading brands such as Johnnie Walker scotch, Gordon's gin and Smirnoff vodka. Most analysts have assumed that the other drinks companies will have to merge or form joint ventures to match its reach and cost advantages.

Seagram has held talks with possible suitors including Allied Domecq, the UK group, and Bacardi-Martini, the Bermuda-based owner of the white rum that is the world's best-selling spirits brand. But they have foundered over the reluctance of the Bronfmans and potential partners to cede control of any new venture.

"It's simply that 61 per cent and 61 per cent don't add up to 100 per cent," says

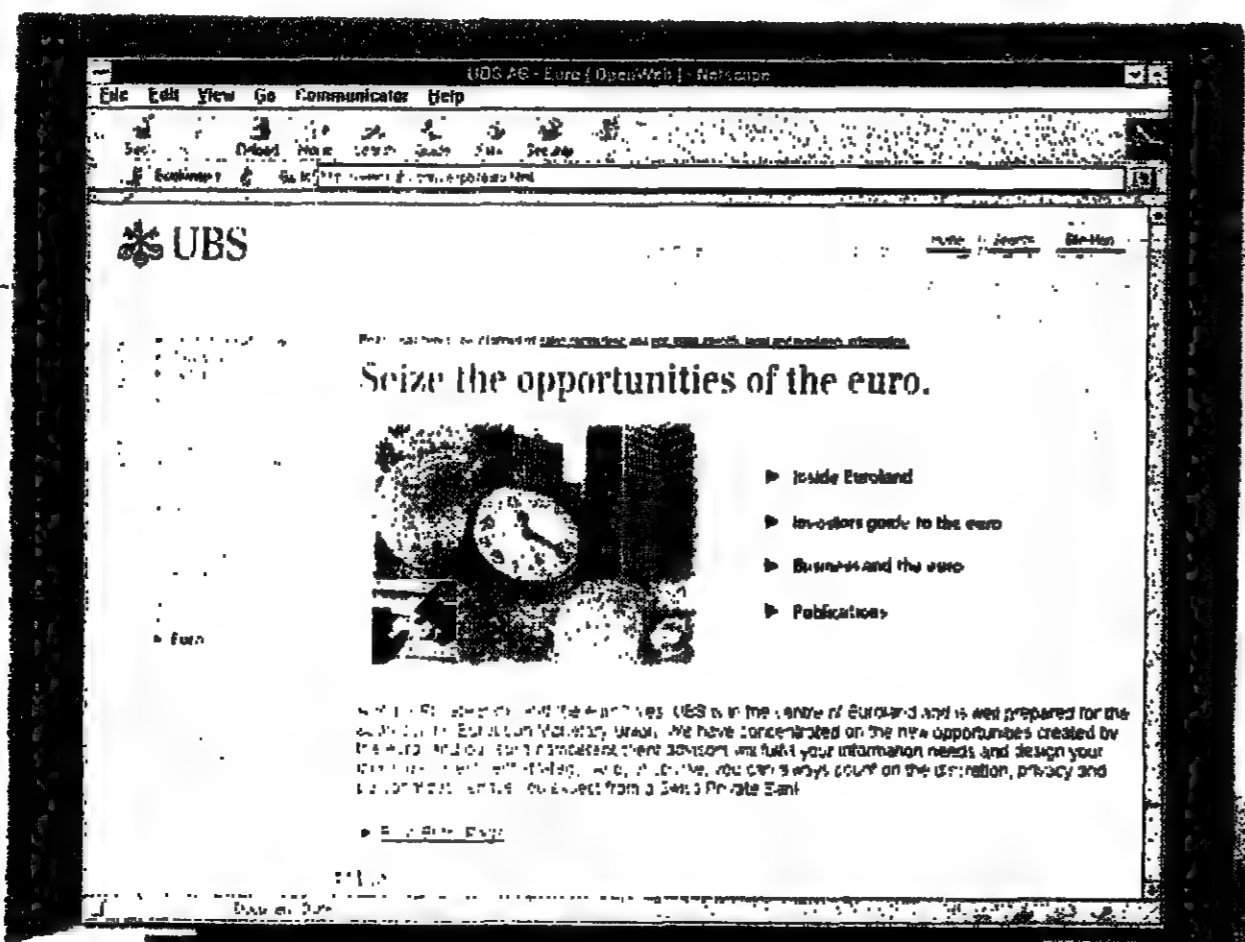
David Fleming, editor of Impact International, the industry newsletter.

Last week, Seagram announced a shake-up of Spirits & Wines designed to end speculation over a sale or even a global tie-up with another drinks group such as Allied Domecq. Management has been centralised in the division's New York headquarters in an attempt to give Mr Bronfman greater control over its operations.

Yesterday Seagram announced a similar restructuring of its entertainment divisions, following the departure of Mr Biondi. Mr Bronfman clearly believes he must take a stronger grip on the group if he is to dispel the doubts over his strategy among employees and investors - who include many family members.

"The proof is in the share price," says Jill Krutick of Salomon Smith Barney in New York. "If it begins to recover, everyone will call the changes heroic."

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IN THE MATTER OF THE COMPANIES ACT 1985

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NORTH AMERICA: BUSINESS LOCATIONS

TUESDAY NOVEMBER 17 1998

Investment eases as belts are tightened

Economic expansion has drawn heavily on the labour pool, making it difficult for new employers to find skilled workers, says **Richard Waters**

From Interstate 85, as it slices through South Carolina, the impact of a decade of heavy foreign investment is readily apparent.

In common with other parts of the south-east, the area still looks to its shrinking textile industry for a fair number of jobs. The largest private sector employers in the area are all mills, a reminder of the region's economic past.

But the future lies more in the new manufacturing plant that have sprouted along the sides of the freeway, many of them built by foreign companies. One in 10 manufacturing jobs in the area are now said to be for German companies such as Hoechst, BMW and Siemens.

The foreign direct investment boom of the 1990s, and a surge in capital spending by US companies, has created pockets of activity like this across the country, with the faster-growing south-east and south-west the biggest beneficiaries.

The North American Free Trade Agreement may have made it easier for low-wage jobs to flow to Mexico, but the long expansion of the 1990s has created more than enough employment to fill the vacuum.

The conditions that supported this wave of investment may be less potent than they were, though. One

result is that US states and cities are likely to have to fight harder to attract new investment, putting companies in a stronger position to negotiate terms before agreeing to put down roots.

The dollar, despite some weakening lately, has been on a roll, making life tougher for US-based producers. According to the Bureau of Economic Analysis, the strength of the US currency is probably a large part of the reason foreigners spent less on establishing businesses in the US last year than the year before, the first time foreign investment has fallen since 1982.

Meanwhile, worldwide overcapacity in a number of industries has produced a glut of cheap imports that is putting US plants under pressure to keep raising the productivity bar.

And a long economic expansion has drawn heavily on the country's labour pool, making it increasingly difficult for new employers to find skilled workers.

The effects of overcapacity can be seen in some high-profile industries. Virginia, for instance, has seen its attempt to foster a local high-tech industry sidetracked by Motorola's decision to suspend construction on a new chip plant.

"There is nothing unusual about this," says Wayne

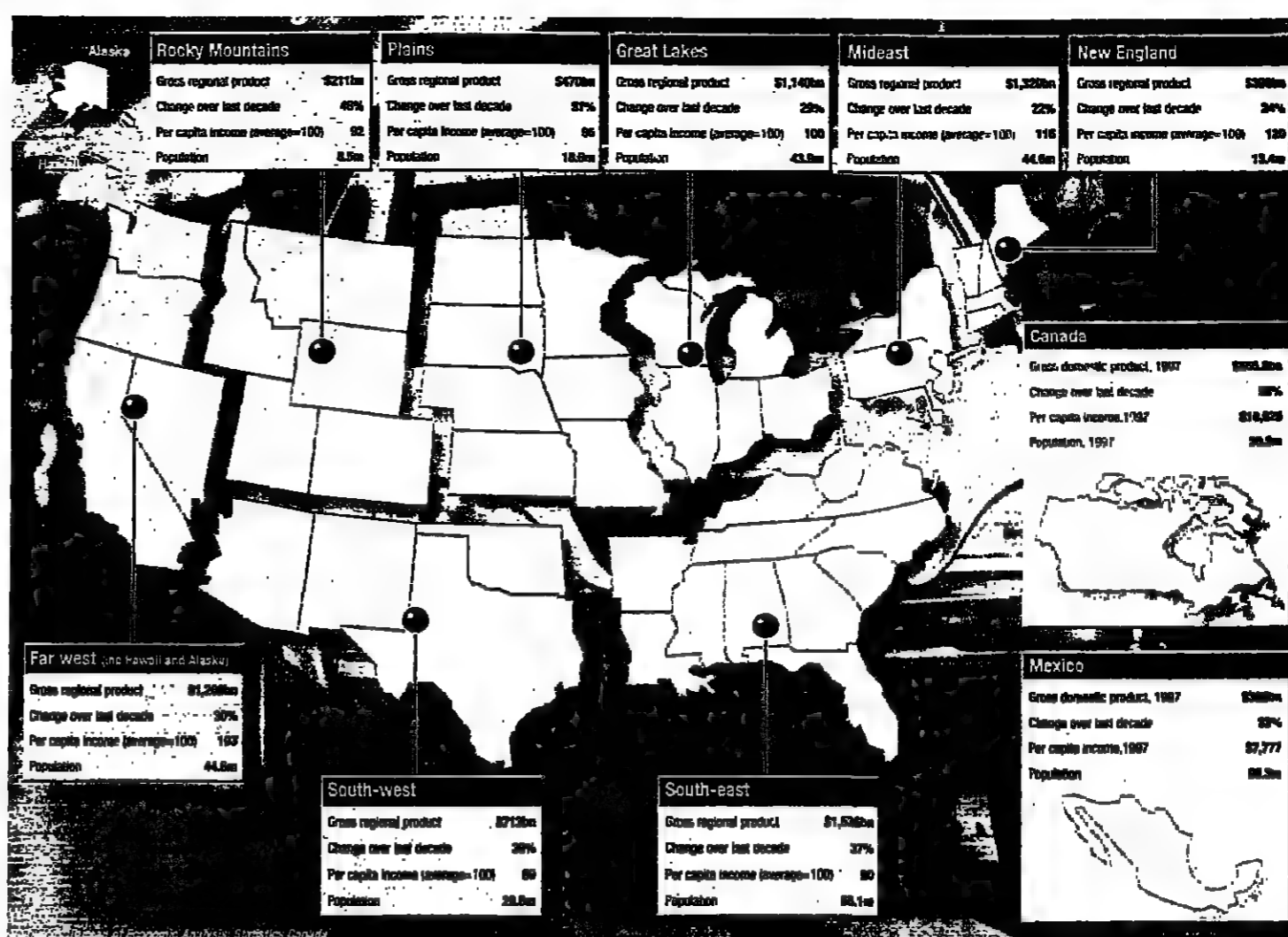
Sterling, head of economic development in Virginia. The semiconductor industry may have hit a cyclical downturn, he says, but new projects are still in plentiful supply in industries which are expanding, such as telecommunications and financial services.

Mr Sterling concedes, though, that the overall investment picture is not as bright as it was. There are fewer companies shopping investment projects around in search of the state that will give them the most favourable welcome.

Also, the concerns that have swept through the international financial markets have had an impact. It has become more difficult to find the finance for new projects, particularly for foreign companies wanting to invest.

Many US companies have started to tighten their belts to prepare for what they believe will be more difficult economic times ahead. According to a recent survey of chief executives, undertaken by the Business Council, two-thirds of large companies have already reduced their capital spending plans.

The retrenchment is mirrored by the investment slowdown from abroad. But the 11 per cent drop in foreign investment last year should be kept in perspective.



In the previous four years spending increased by nearly 50 per cent a year. Besides the strength of the dollar, a big reduction in investment by Japanese companies accounts for much of the recent decline. Both Canada and Mexico experienced a similar pattern. While foreign investment slowed, it remained high by historical standards.

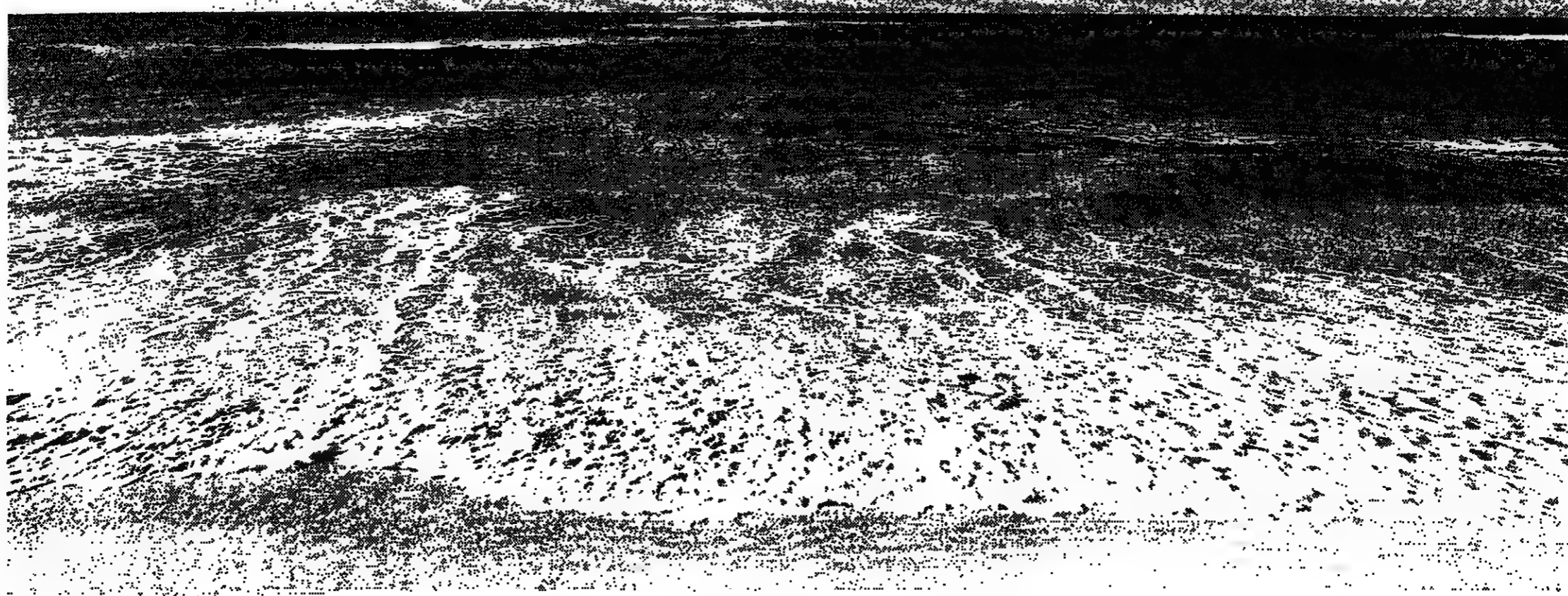
California and Texas, the two most populous US states and among the most successful in creating new jobs since the mid-1990s, have been among those to see biggest declines. The same is true of the south-east. Some of the US cities that witnessed the quickest expansion have seen their growth rates slow most noticeably, particularly those whose expansion owed much to high-tech industry. Job growth in San Jose has fallen from 6 to 2.5 per cent, though that may owe at least something to the great difficulty of finding

office space and housing in Silicon Valley. Despite this, the US economic expansion of the 1990s has to all appearances created fewer of the excesses from the 1980s that exacerbated the effects of the last recession in some regions. That is particularly true in the real estate markets. Though cities such as Atlanta have attracted a wave of new construction, it does not bear comparison with a decade ago. The expansion of the 1990s, meanwhile, has continued to draw workers from the mid-west and east, creating bigger markets that have, in turn, made them more attractive places to establish business.

Growth rates in the west over the past decade have put it well ahead of most other parts of the nation. The economy of the south-west has grown nearly 40 per cent over the past decade, while the economy of the Rocky Mountain states, while far smaller, is up by 46 per cent. North-eastern states, in contrast, have grown little more than 20 per cent. Some factors which made the south-west and south-

east such attractive sites for new investment are less clear-cut than they were. The relatively low cost of labour is not what it was. Personal incomes in both regions, for instance, have risen to around 90 per cent of the national average, eroding much of the cost advantage that has attracted outsiders in the past. But, with fast-growing regional economies, a generally more pro-business environment and more space available for development, both are also likely to be continued beneficiaries of new investment.

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NORTH AMERICA: BUSINESS LOCATIONS



Sparkling new car factories, such as BMW's plant in Greer South Carolina, tell only part of the economic story

THE SOUTH by Richard Wolffe

Brainpower is in demand

The mood of the region is captured by retailers increasingly concerned that the boom times may be ending

The image of the booming new south has become a familiar picture of success for businesses seeking to relocate in the US.

Its reputation as an engine of growth is well earned. By the mid-1990s, according to the US Bureau of Economic Analysis, the south was winning around 40 per cent of foreign investment into the US compared to just 15 per cent in the north-east and 25 per cent in the west.

But the booming image has lost some of its lustre in recent months as the economy has begun to slow across the southern region, led by a downturn in manufacturing fortunes.

According to this month's beige book of economic analysis by the Federal Reserve, the pace of business activity weakened in the Atlanta and Richmond regions, where the manufacturing sector felt the impact of the faltering international economy.

Manufacturers, while hopeful about their prospects, voiced their first significant fears about their markets. Paper producers

and oil companies reported cutbacks and little hope of improvement.

In Tennessee, furniture and textile producers said their expectations were poor, while in Alabama steelmakers admitted that increasing imports were leading to fears of layoffs and reports of rising inventories.

However, the downturn reports were offset by strong sales in the retail and tourism sectors, which have proved a substantial boost to the region. While there are fears that overseas tourists may stay at home, strong booking levels suggest more reasons to be optimistic.

Businesses such as retailers appear to be increasingly concerned that the boom times may be coming to an end, even if concrete evidence of a fall-off in activity is hard to find.

The gloom may be overdone. Regional economists predict growth rates in the last quarter of this year will reach an average 3.7 per cent across the region, compared with 2.8 per cent for the US as a whole.

Some states such as South Carolina are expected to grow by 4.2 per cent, while others such as Alabama may merely reach a respectable 2.7 per cent.

South Carolina's encouraging prospects rely on the new leisure sector of hotels and restaurants around Myrtle Beach as well as the back-office operations of Charleston.

Tourism is also the bedrock of the region's largest economy. Florida, which is forecast to grow by 3.9 per cent according to the *Southeast Journal*.

But it is in the longer-term that the outlook becomes more uncertain for the region. In particular, the south has enjoyed rapid growth because it has been catching up with its northern rivals, particularly in terms of wages.

For instance, in 1970 personal income in the south represented just 83 per cent of the US average, according to MDC economic research in North Carolina. By 1995 that figure had risen to 90 per cent.

While that is undoubtedly positive for the region's

workforce, it also undermines one of its key selling points - comparatively low cost labour.

Moreover, the cost of living in the region has shifted upwards as the south has left behind its largely rural roots to move to gleaming new urban centres, such as Atlanta and Houston.

Seven out of 10 southerners now live in metropolitan areas, while only four states - Arkansas, Kentucky, Mississippi and West Virginia - have more people living in rural areas rather than in urban ones.

Of course there is still much evidence of the old south in terms of low wages. More than 7m southerners working full-time earned less than \$12,500 a year, the official poverty line for a family of three.

But the combination of problems of the old and new south converges on one issue, the need to raise educational standards to push up the quality of jobs which the region can attract.

Partly because of its historically low tax base, the south's education system

has a reputation for severe underfunding. The Southern Regional Education Board says the south educates one-third of the country's children with one-sixth of the school funding.

In college standards the south is now further behind the rest of the US than it was in 1976, says MDC, despite undoubted improvements. The percentage of southerners with a university degree rose from 15 to 23 per cent between 1976 and 1997, while the national rate rose from 16 to 26 per cent.

For the influential Commission on the Future of the South, made up of the great and good among the business and academic leaders of the region, there is no higher target than raising school standards.

The commission tells the story of how a high-tech tool company from Michigan wanted to relocate to Shelbyville, Tennessee, but asked the region's chamber of commerce the unexpected question: "Can your high school graduates perform calculus?"

For many business leaders the higher demands of investors are pushing forward a policy agenda which will build both economic and social advantages for the long-term future of the south.

Michael Hooker, chancellor of the University of North Carolina at Chapel Hill and a leader of the commission, says: "In the 21st century, the only competitive advantage available to the south or to any region in the global economy is brainpower. We will be successful only to the extent that we unstintingly cultivate, develop and wisely deploy our intellectual capital."



PROFILE ALABAMA AND SOUTH CAROLINA

Vision remains more of a blueprint than a reality

The sparkling new car factories built by BMW in Spartanburg and Mercedes-Benz in Tuscaloosa may be the flagship foreign investments of the new economies of the south-eastern states. But the enticing image of highly-skilled workers producing high-class products tells only part of the story.

For the economic strategists of the south-east the region is far from where it needs to be to compete successfully in the global economy. Indeed, under pressure from low-wage countries in the North American Free Trade Agreement, the south has been losing thousands of jobs in traditional sectors such as textiles and apparel.

In states such as Alabama and South Carolina government officials and business leaders have been rapidly outlining economic strategies to attract higher-skilled, higher-paid jobs in technology-based industries.

However, their political and economic vision remains more of a blueprint than a practical reality despite pockets of success around a handful of international investors. For Keivan Deravi, professor of economics at Auburn University in Montgomery, Alabama, those structural changes need to happen sooner rather than later.

"We are at the crossroads," he says. "The north-eastern states decided in the 1960s to give up their low-tech manufacturing and concentrate their efforts on higher-skilled manufacturing. We in the south inherited what the north-east and the mid-west rejected - these low-tech and low-skilled industries."

"What we have to offer the rest of the world and the rest of the nation is a cheap and non-unionised labour force with low skills and a very relaxed legal and labour environment. So what we got is the type of industries in direct competition with Singapore and Indonesia."

"We do not have the infrastructure to have a high-tech industry, but we have reasons to have one here - not because of the scenery but because the customers are here."

Following the financial crisis around the Pacific Rim, further traditional industries such as timber

and steel are suffering fierce new competition from Asian imports. The overall result is not just a loss of jobs but a contraction in the workforce.

In Alabama alone the overall workforce has shrunk by 32,000 to 2.14m this year, while the unemployment rate has fallen from 5.2 to 4 per cent. Employers with a growing workforce have found it hard to recruit new employees and hold on to existing skilled workers.

The solution for economic development strategists is to attract more high-tech companies to existing areas of success. In particular, the south-eastern states are keen to improve the skills of their workforce by raising educational standards which have lagged the rest of the country.

In South Carolina, where low-cost manufacturers have particularly suffered from recent Asian competition, the state government last month formed a grand technology alliance to help recruit high-tech investors. With a 13-member board of university heads and business leaders, the alliance will target employers in electronics, software, telecommunications and technology-based engineering.

In particular, the state wants to adapt its network of "special schools" to help train workers for high-tech employers, as well as develop venture capital funds for start-up businesses.

At its launch outgoing Governor David Beasley said: "This we know, high tech equals high wages. Both go hand-in-hand to form companies that are better equipped to adapt to competitive markets and economic fluctuations."

"With nearly 127,000 people in South Carolina already employed in technology-intensive industries, we must prepare our labour force for the skills those businesses demand and recruit them aggressively."

For the South Carolina chamber of commerce the high-tech vision has some flaws but is a long way from fruition. Hunter Howard, president and chief executive of the chamber, says: "We have some higher technology manufacturing such as chemicals and synthetic textiles, but that is a niche from an output

standpoint.

"And there has been growth in pharmaceuticals, such as Roche. High-tech is our next horizon, and there is some foundation for it with three good research universities here. But, in terms of the economy as a whole, it has not taken off yet."

In Alabama focused policies centre around the existing medical research at the University of Alabama in Birmingham. There the university and business leaders are keen to start a home-grown cluster of biotechnology and medical-related companies.

David Day, interim director of the university's research foundation, says: "We are building one of the top three genetic centres in the country. We are telling the young faculty that we will let them have tenured jobs and not only allow them a run outside businesses but actively help them to do that."

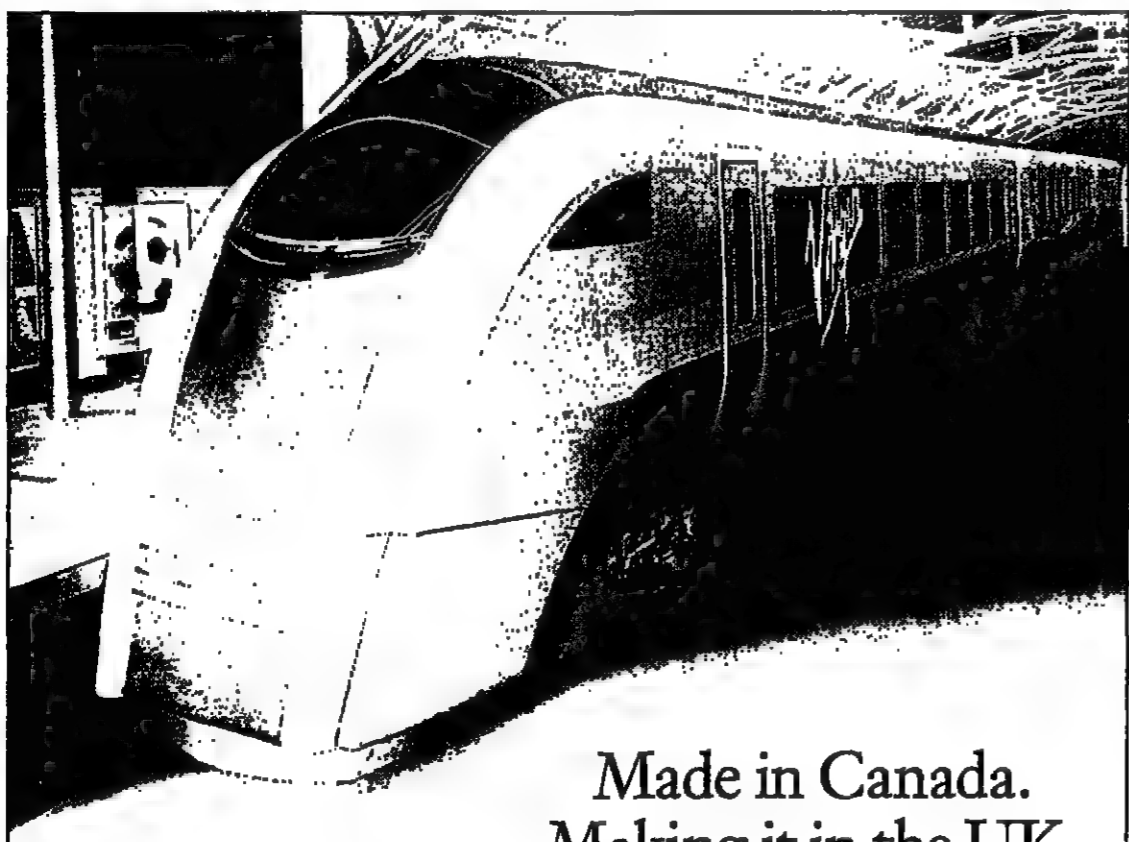
Along with a 100-acre science and research park, the university has started a venture capital fund to invest in start-up biotech and medical businesses, an aim to attract professional executives to manage new companies.

For the Economic Development Partnership of Alabama, a private sector body which aims to attract foreign investors to the state, there is a clear model for building a cluster of high-tech companies. In the north of Alabama companies have boomed around the long-standing base for the NASA space agency in the Huntsville area.

In both states there is a clear recognition that the starting point for attracting high-tech investors is the education system. Earlier this month both states elected new governors, replacing Republicans with Democrats, on a platform of improving educational standards, which have suffered partly because of historic racial divisions.

"Our education system needs to be improved an enormous amount," says Professor Deravi. "Unless we fix it and build an overall infrastructure in terms of the legal and business environment, we will only get a very selective number of high-tech industries based here."

Richard Wolffe



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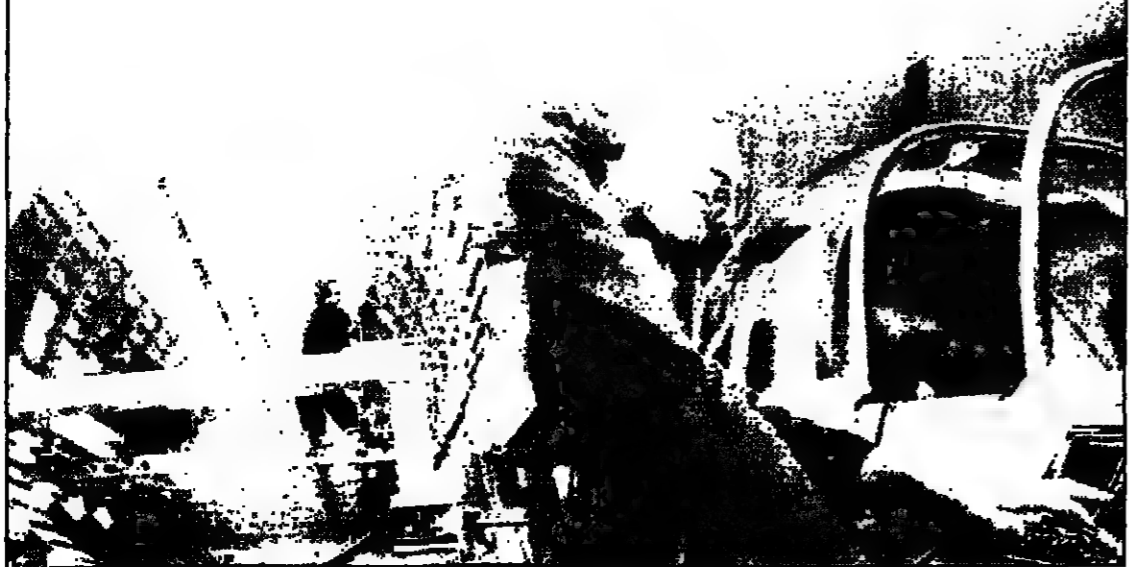
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LABOUR MARKET by Nancy Dunne

Time to flex the muscles

The potential and growth of telecommuting is one of the few certain trends in a volatile employment market

After Linda Tripp became the world's most famous snitch for taping conversations with the former intern involved with President Bill Clinton, her job at the Pentagon was secure but not precisely comfortable. Her employers found her a telecommuting position which enabled her to work at home with a computer and a telephone. It gave her the flexibility to meet with lawyers and prosecutors and allowed her to avoid the hostility of her colleagues - while she continued to earn a living.

As a stay-at-home worker, Ms Tripp is not unusual. Telecommuting is a booming trend in private industry as well as in government. The federal government has increasingly encouraged telecommuting in order to save on office space. About 1.5 per cent of the government's employees work at home, a percentage that is due to rise to 15 per cent by 2002.

This kind of flexibility is increasingly important in the US job market - for government and private sector, for employers and employees alike. As the fortunes of the global economy wax and wane, managements want to provide job shares, home employment and to take on temporary workers. Some employees prefer the flexibility. For instance, parents are often glad of the opportunity to spend more time with their families.

However, desirable as the elasticity may be, there are also more ominous trends. In some areas there are skills

shortages or mismatches, but mostly the increased rate of downsizing has produced an anxious work force willing to work harder and longer than they have in decades, often with fewer pay increases and promotions.

Downsizing may reach record levels this year, driven by the troubles in the global economy and mergers and acquisitions.

John Challenger, chief executive of Challenger, Gray and Christmas, a Chicago outplacement firm, says plans have been announced for the downsizing of more than 52,000 workers in the first 10 months of this year, compared with 43,000 in 1997. If this trend continues apace, there may be more cuts announced this year than ever before.

"Concerns about the shortage of workers has eased some," he said. "Job creation has been low for two consecutive months. But this is a self-correcting economy and a lot of companies are happy to see workers come onto the market."

Cost reduction has become the key to competing with cheap imports, and one of the easiest ways to keep costs in line is to get control over labour costs. This often means bad news for older, high cost workers with long tenures in a single company.

Meanwhile, the number of temporary and "leased" workers is rising, as a means of cutting costs. "Temps" do not get the health care and pension benefits given to full

time employees, and they may be easily cast off when business is slow.

Some workers find advantages in temping. Jill Baker is a qualified reading teacher, but was unable to find permanent employment after the family moved to Paoli, Pennsylvania, when her husband got a better job. Temporary employment can often be interesting, she says, while at the same time she has the option of staying at home with her teenage son or helping to care for elderly parents.

On the flip side, both temporary and permanent employees report that they are working harder than ever. The New York Times recently reported that many so-called part-time workers - mostly women professionals - are being forced to work 35 to 40 hours a week.

Meanwhile, the average work week for professionals and managers has stretched from 45 hours two decades ago to 48, and it is not uncommon to find professionals and senior executives working 60-80 hours a week.

Overtime is by no means limited to professions. In many of the re-organised, re-engineered companies of today, many middle managers have been eliminated, and their former subordinates are required to fill the gap.

Fearing the loss of their own jobs, they are reluctant to complain about long work hours, even though studies have found that so much forced overtime is causing family problems, burnout and reduced effectiveness.



Tripp: now a telecommuter

Union workers have begun to strike, not for higher pay, but for more time off. In the spring of 1994, steel workers at Allegheny Ludlum Corp struck after some workers were forced to spend as much as 146 hours in two weeks on the job.

It is in this time of increasing job stress that telecommuting has grown increasingly desirable. According to the American Management Association, in 1997, 51 per cent of US companies had launched some kind of telecommuting programme for its workers.

Telecommuting has been boosted in many states by concerns over traffic and air pollution and a desire to encourage a large segment of the work force to off the highways.

The trend is a useful tool for foreign companies, interested in setting up in the US but unable or unwilling to invest in large headquarters or regional offices. Its potential and growth is one of the few certain trends in a job market made more volatile, but adaptable, in the global economy.

CANADA by Edward Alden in Toronto

Falling behind in race to attract investment

Is the nation north of the 49th parallel suffering from a perception problem, or do its problems run deeper?

Canada's efforts to attract foreign investment have faced a paradox in recent years: by most accounts the country is among the cheaper and more attractive locations for business in the industrialised world.

Yet Canada finds itself falling behind in the race to attract more foreign investment. Since 1985, while Canada's FDI stock has doubled in dollar terms, the country's share of inward investment has fallen sharply.

Among the Group of Seven countries, for example, Canada's share of inward FDI stock is half of what it was in 1985. In North America, the share has dropped from 24 per cent to 18 per cent. Worldwide, Canada's share dropped from 9 per cent to just 4 per cent over the same period. While investment by US companies in Canada has risen steadily this decade, European and Japanese companies are increasingly looking elsewhere.

This relative decline is a source of considerable concern to Canadian federal and provincial governments, because Canada's economy relies more heavily than ever before on encouraging companies to establish global, or at least continental scale facilities in the country.

The free trade agreements concluded in the past decade with the US and Mexico mean that Canada can no

longer rely on its historic policy of encouraging foreign companies to set up small branch plant operations behind tariff walls to serve the Canadian domestic market. Multinational companies are now able to locate in the US or Mexico and export to the Canadian market without facing high tariff barriers. Canada's challenge is to convince them to choose Canada as their platform for export to the rest of the North American Free Trade Agreement region.

In an effort to reverse this declining trend, Canadian governments have stepped up their campaign to promote Canada as an attractive place to do business. According to a 1997 study by KPMG Peat Marwick, UK accountants, Canada was the cheapest business location for manufacturing when compared with the US, the UK, France, Germany, Italy and Sweden.

The study looked at overall business costs, including initial investment costs such as land acquisition and construction, labour costs, transportation, electricity and telecommunications costs, the cost of capital and taxation. Canada fared well in virtually every category, excepting only road freight costs and capital taxes. Even a considerable rise in the Canadian dollar, from the current level of 65 cents US

to nearly 80 cents, would not negate these advantages, the study found.

A similar KPMG study earlier this year found that, among big North American cities, Toronto was 25 to 50 per cent less costly as a business location than large American cities such as Atlanta, Dallas, Chicago, New York, San Francisco and Los Angeles. Other Canadian cities such as Montreal, Vancouver and Ottawa were even cheaper than Toronto.

And Canada's advantages are not limited to low costs; it also has a highly educated population, advanced infrastructure and attractive, safe cities in which to live.

So is Canada suffering from a perception problem by foreign investors, or are there solid reasons why more companies are not putting down roots north of the 49th parallel?

Someshwar Rao, director of strategic investment analysis for Industry Canada, the federal department, says the problem is a bit of both. In particular, he says, competing with the US for investment means that Canada "not only has to be competitive, we have to be number one because the US has some huge advantages in terms of technological infrastructure and the size of the market."

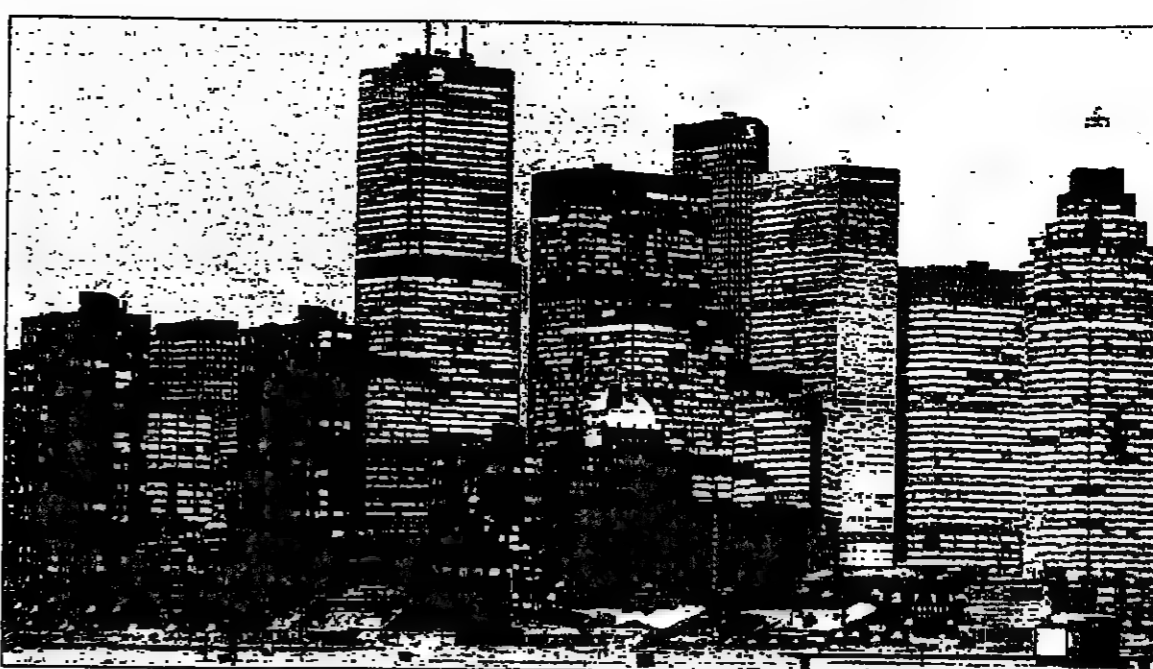
Among the real problems identified by economists

have been Canada's low levels of productivity; relatively high personal and corporate taxation; the poor overall economic performance in the last decade relative to the US; and the instability of the Canadian dollar. And while Canada has increasingly embraced foreign investment, significant restrictions on foreign ownership remain in such dynamic industries as telecommunications and financial services.

The Canadian government hopes that most of these problems are on the verge of being resolved. Labour productivity, for instance, which has lagged behind the US over the last decade, showed a strong surge in 1997, rising 2.9 per cent compared to the 1.8 per cent gain recorded by the US.

The Canadian dollar, which suffered a sharp plunge against the US dollar this year, has likely bottomed out, making Canadian assets cheaper than they have been in a long time and offering the likelihood that any acquisition will appreciate in value.

Paul Martin, Canadian finance minister, has promised further reductions in personal income taxes in the next budget to be handed down in February. But corporate taxes are not on his immediate agenda. This is despite a detailed government-sponsored study this year that found Canada's marginal corporate tax rates are high compared to the US. Despite these obstacles,



A study this year found that Toronto was 25 to 50 per cent cheaper as a business location than cities in the US

George Hemmingshaw

there have been some bright spots in Canada's efforts to attract foreign companies. Quebec, for example, has wooed substantial new investments in the pharmaceutical and aerospace industries despite the continued political uncertainties created by the province's threat to separate from the rest of the country.

Quebec's generous write-offs for research and development expenses and its accelerated depreciation allowances have encouraged new investment from companies such as Astra, the Swedish pharmaceuticals company and Liebherr Aerospace, a subsidiary of the Swiss engineering company.

In addition to the basic 20 per cent federal tax credit, Quebec offers a 30 per cent tax credit for salaries on R&D activities, increased to 40 per cent for research at a recognised research centre. In addition, foreign researchers who move to Quebec are

eligible for a two-year tax break on personal income. Research in Quebec has led to several breakthrough products, including Bombardier's unparalleled regional aircraft line, Biochem Pharma's AIDS drug 3TC, and the animation and special effects software of Discreet Logic and Softimage, a Microsoft subsidiary.

Ontario also offers generous R&D tax breaks, which has encouraged large investments by Nortel Networks, a Canadian voice data network company with substantial global operations, IBM Canada, Imperial Oil and General Motors of Canada.

Both Ontario and British Columbia, Canada's westernmost province, have also lured the US film production industry, a particularly mobile and cost-sensitive business.

But Canadian governments are hoping to do much better. Denis Gauthier,

director-general of micro-economic policy analysis at Industry Canada, says the disjuncture between Canada's low costs and its difficulty in attracting business "provides a lot of rationale for really promoting Canada as a place for doing business."

Stuart MacKay, one of the authors of the KPMG study on Canada's business costs, said that in speaking tours of Europe recently he found a strong bias in favour of locating in the US. "When Europeans are looking at North America, because 80 per cent of the market is in the US, there's no consciousness that we are physically proximate to the major US markets," he says. "I hear it again and again: we're just not on the radar screen."

But changing those perceptions will be no easy task. Steven Globberman, a professor of economics at Simon Fraser University in Vancouver, says it will be

almost impossible for Canada to break the US stranglehold on the critical, fast-growing high-technology industries - an advantage that is luring away many of the best-educated Canadians to higher-paying jobs south of the border.

"It's very unlikely, short of bankrupting yourself, that you can buy your way into these areas simply through subsidies," he says.

Canada faces a genuine dilemma in North America. While it is a low-cost location, highly cost-sensitive businesses will opt for Mexico, which remains far cheaper. And while it has wealthy markets, an educated populace and advanced infrastructure, it cannot match the scale of opportunities offered by the US.

Canada is trying to find a middle way that will prove attractive to investors, but the ingredients are not quite yet in place.

JOB CREATION IN THE US by Christopher Parkes

Business as usual but the accent changes

Clothing manufacture, not an obvious winner in an advanced economy, is one of the fastest-growing businesses

The free-flow exodus from California of people and businesses driven by recession or fear of worse to come after the early-1990s round of earthquakes, riots and wildfires has come to a halt.

The population decline has been reversed in the past year and the state is, as before, welcoming all comers and open for business.

Yet, although the people are coming, driving the rate of population increase at twice the national average, the business base seems to be going in the opposite direction.

The continuing fall-out from the restructuring of the aerospace and defence industry has cost the state thousands of jobs and its flagship McDonnell Douglas.

Consolidation of the energy sector has exposed the state's three big oil groups as weak takeover candidates. The compression of the financial services sector has seen most of the leading banks taken over.

The loss of corporate headquarters and jobs have all contributed to the impression of an eroding base yet, as with population, job creation in the state runs well ahead of national rates.

Silicon Valley and Los Angeles remain unrivalled powerhouses of the international high-tech and filmed entertainment industries and, despite recent slowing, continue to grow at underlying rates which reflect the sectors' importance to the global market.

But the fastest-growing group of employers comprises the small companies founded by new millionaires seeking their own way outside the computer and software industries which made them rich and the ambitious entrepreneurial newcomers immigrants from the US and overseas, eager to exploit region's market.

Clothing manufacture, not an obvious winner in an advanced economy, is one of the fastest-growing businesses in southern California, drawing on vast reserves of cheap immigrant labour and selling into a fashion-hungry market.

But the state also has large reserves of skilled and highly educated workers feeding software and services suppliers ranging from electronic games to car design.

Although there is only one car assembly plant in the state, representing a much reduced automotive industry, more than a dozen car companies maintain design



Baggy clothes fashions are fueling an industry revival

AP

studios in Orange County.

Just as they are staffed largely with graduates from the renowned Pasadena arts college, the biotechnology industry clustered further south near San Diego and scattered throughout the state finds no shortage of graduates from California's renowned university system.

Abundant labour, skills and wealth make for a vibrant economy and an attractive market which, in terms of residents, is expected to equal that of France within 20 years.

But, if the marketing opportunities are all too obvious to outsiders looking to relocate, so too are the disadvantages. California's vaunted infrastructure is under stress from the forces of advancing age, neglect and demands which it was not designed to bear.

According to the California Business Roundtable, an industry lobbying group, a 10-year spending programme and a budget of about \$115bn is needed to bring it up to scratch.

Efforts to build a more business-friendly environment have focused recently on corporate tax reforms and the elimination of red tape.

They have neglected almost entirely the fundamental requirements of cities in which 60 per cent of the elementary schools, built with the light materials typical of the region, are more than 30 years old.

The Pasadena Freeway, the first stretch of the highway network which links the grid of towns comprising the Los Angeles sprawl, is 60.

Up to \$25bn needs to be spent on roads merely to maintain existing levels of mobility, the round table said in its recent report *Building a Legacy for the Next Generation*.

And yet, when Governor Pete Wilson found himself

this year with a \$4bn budget surplus - more than Canada's - he fought and won a battle to dispense the bulk of it and future expected windfalls on a measure which would tend only to increase the numbers of cars on overloaded roads.

Mr Wilson's virtual elimination of vehicle licence taxes made his reputation as a tax cutter, enhancing his reputation in preparation for a possible run for the presidency. It also fed Californians' appetite for ever lower taxation, which has haunted more far-sighted politicians since property taxes were capped in 1978.

The impact of this radical step, which robbed local authorities of an important slice of their revenue, is now everywhere apparent in the deteriorating infrastructure.

To replace the lost revenue, many now encourage the development of retailing malls and car showroom lots which yield vital sales taxes. But such policies militate against the construction of industrial and commercial buildings, and even the homes which the state so desperately needs.

A small industrial company looking for premises in Los Angeles, for example, will find the vacancy rate is about 5 per cent, among the lowest in the country. But as local officials point out, even that scant supply is usually unusable because of age or lack of access for trucks.

A family looking for a home in Los Angeles will find prices more than 50 per cent higher than the national average.

Even in modernistic Silicon Valley, road, commercial and residential building capacity is close to exhaustion, and San Francisco has in the past year overtaken Hawaii, long unchallenged as the place with the highest cost of living in the US.

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MEXICO by Henry Tricks in Mexico City

FDI bonanza loses some of its sparkle

The government is hoping that annual foreign direct investment levels of \$9bn-\$10bn will be boosted by the rise of export-oriented plants known as 'maquiladoras'

The foreign direct investment bonanza enjoyed by Mexico in 1997 has lost some of its fizz this year but the government still expects a robust total of close to \$10bn to arrive, in spite of upheaval in world financial markets.

While the effects of global market turmoil drove the value of speculative investment in Mexican securities down 40 per cent in the first nine months of the year, foreign corporations have tried to keep their investment plans intact.

Helped by membership of the North American Free Trade Agreement (Nafta), Mexico has become the second-largest recipient of foreign direct investment in the emerging world after China.

Despite problems at home, Asian companies continue to use Mexico as a springboard to the US, as do European multinationals that are also eyeing the prospect of free trade talks starting in November between Mexico and the European Union.

The corporations praise just the sort of conditions

speculative investors appear to have ignored in their flight to the door: tight fiscal action to offset a slump in government oil revenues, a competitive trade policy and a domestic economy that is expected to grow some 4.5 per cent this year.

Their investments are not of the magnitude seen last year, when Mexico attracted \$11.7bn of foreign capital partly due to one-off corporate takeovers in the cigarette industry and consumer goods sector. But deregulation of natural gas distri-

bution and power generation have attracted foreigners, and investors are also eyeing the up-coming privatisation of the nation's airports and a long-delayed scheme to permit 49 per cent private equity in undercapitalised state petrochemical plants as business opportunities.

"We are not fly-by-night investors," says Andres Davalos, head of the Canadian Chamber of Commerce in Mexico. "The companies that have invested in Mexico are very satisfied with their investments."

That is not to say those who spend on plant and equipment rather than stocks and bonds are safe. Mexico's best year for foreign direct investment was in 1994, when it attracted \$14bn as multinationals shrugged off a rebel uprising in the south-eastern state of Chiapas and the assassination of two leading politicians. The year, which began with the much-celebrated launch of Nafta, ended in a big devaluation and an economic crisis that it took two years to get over.

Economists warn that as Mexico becomes increasingly global in its export capacity, it is also increasingly exposed to global conditions that are now routinely described as at their most perilous in 80 years.

"The Asia phenomenon creates major surplus capacity in areas where Mexican

exporters have been very aggressive," says Rogelio Ramirez de la O, a private economist. "As there is greater awareness of a global slowdown, Mexican reception of FDI will suffer."

Even some observers who say it is too early to predict a slump in FDI believe Mexico's ability to attract increasing amounts of capital may be constrained by politics ahead of presidential elections in 2000.

"We've hit a plateau of FDI at about \$9bn-10bn a year," says Deborah Riner, chief economist at the American Chamber of Commerce. "I don't see dramatic structural changes in the rest of this administration."

To maintain that plateau, the Trade and Industry ministry is putting a lot of faith in the steady rise of export-oriented assembly plants

that first sprung up along the US-Mexico border and are now spreading across the country. Known as *maquiladoras*, the plants import components duty-free and pay export taxes only on the value added. According to Herminio Blanco, the trade minister, they are being established at the rate of 50 a month, and by mid-1998 there were almost 2,900 in Mexico, double the number a decade ago, employing almost 1m people.

The growth of such industries has transformed Mexican exports. What Mr Blanco describes as "old Mexico" products - such as oil and steel - have been eclipsed by the sale of cars, car parts, electrical appliances and household goods. The growth has been so rapid that labour and housing shortages in border areas have become a serious constraint, and in 1997 two-thirds of new *maquiladoras* were set up in the interior of the country as owners sought a more abundant - and therefore cheaper - labour crop.

This year, a Japanese manufacturer of car harnesses opened the first *maquiladora* in Chiapas, Mexico's poorest state. Elsewhere, "clusters" of medium-sized suppliers have sprung up around large-scale manufacturers, turning Mexico into a smorgasbord of regional industries.

In Puebla, a state south of Mexico City, Mr Blanco says there are 70 suppliers, many from Europe, for Volkswagen's main Mexican plant located there. In Aguascalientes, a state in central Mexico, the establishment of a Nissan plant in 1991 acted as a similar magnet for Japanese companies. Now more than two-thirds of the \$1.5bn of foreign direct investment comes from Japan.

Rule changes in the Nafta treaty in 2001 are expected to make life harder for those

maquiladoras whose suppliers are based outside North America, but the Trade Ministry is determined not to let that be an impediment to fresh investment.

"*Maquiladoras* are among the best employers in Mexico and the government will do what it has to to maintain their competitiveness," says Jaime Zabludovsky, a deputy trade minister.

Ahead of trade negotiations with the European Union, Mexico has also signed investment treaties with seven European nations, granting their companies the right to take Mexico to an international tribunal if their investor rights are violated.

Some critics say the agreements give foreign investors more rights than Mexicans, who are denied access to the same courts. But Mr Zabludovsky defends the agreements on the grounds that they are reciprocal.

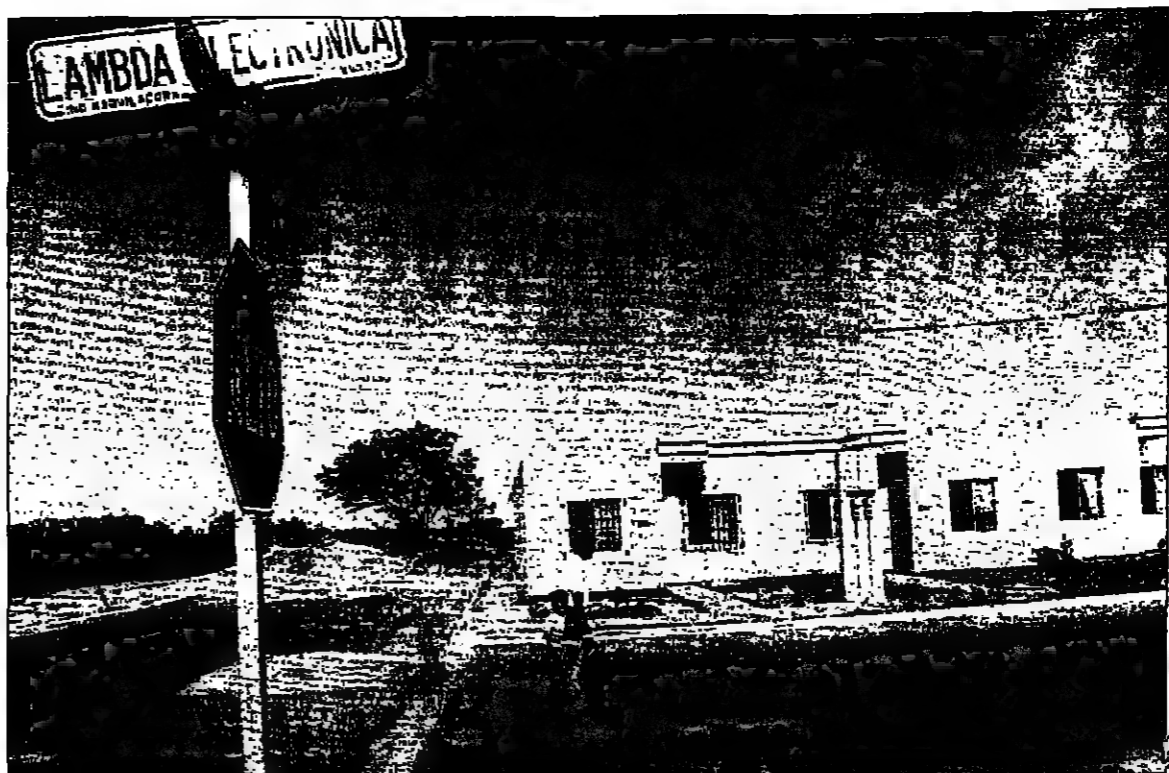
Deregulation in government ministries has cut the waiting time down to a matter of days for companies applying for a licence to

open *maquiladoras*, and some state governments - increasingly aware of the importance of attracting foreign investment - offer to pay the wages of workers while they are in training.

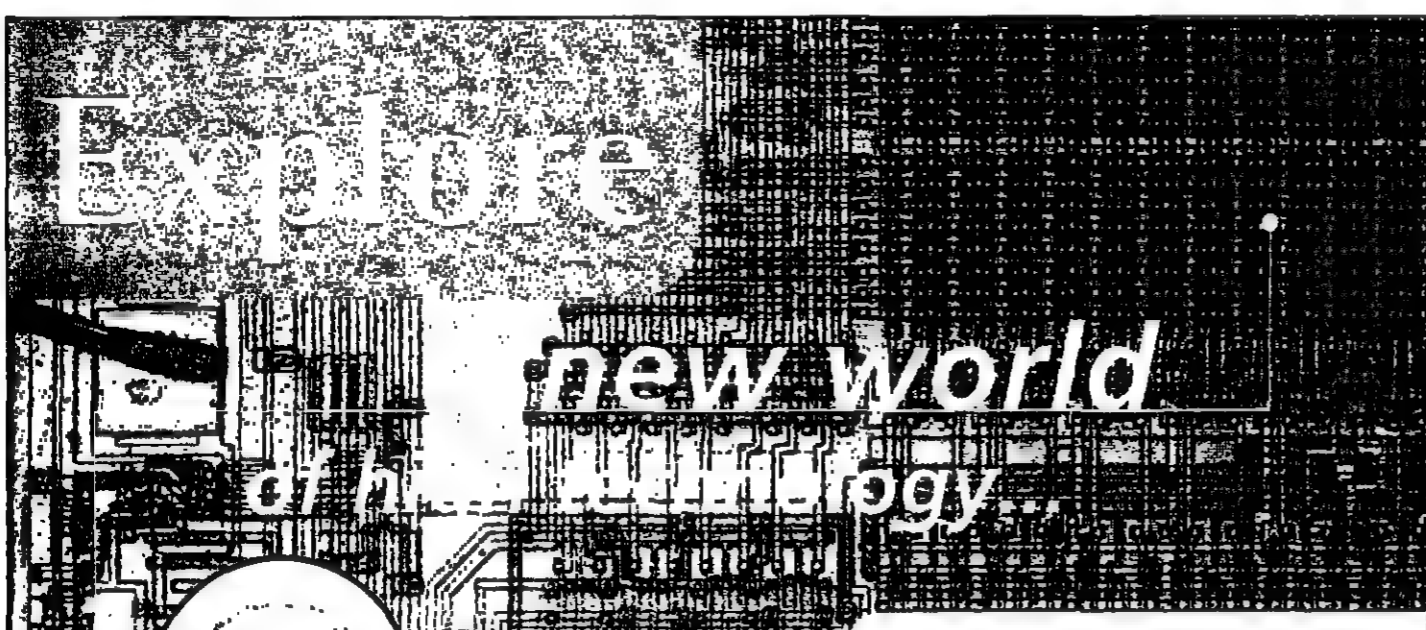
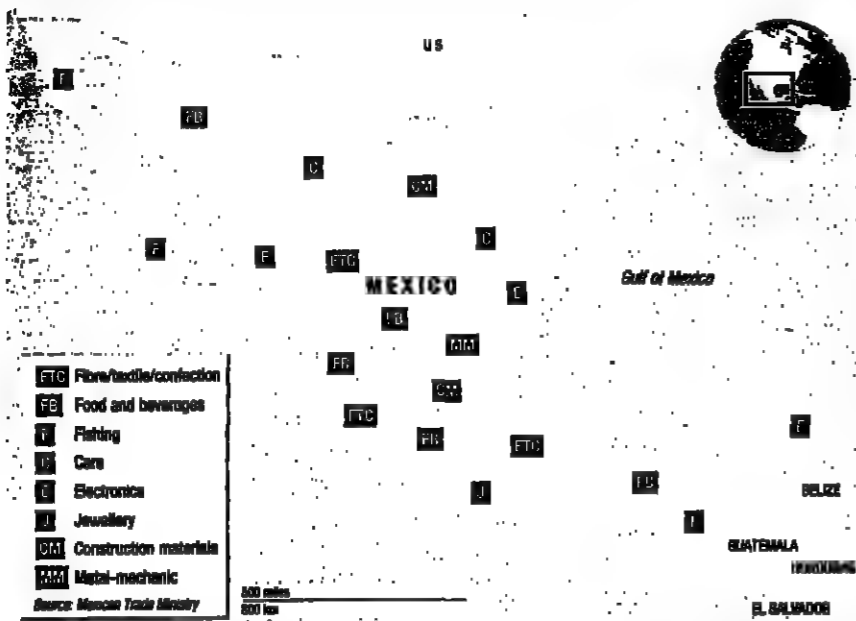
Executives say red tape is still onerous, particularly in the energy sector that remains state dominated, and that complex tax laws - which can change every year - are an impediment to business planning.

Although Mexican wages are about a tenth of the equivalent level in the US, some 30 per cent of the Mexican workforce belongs to politically powerful unions, twice the level in the US. Government corruption is also considered a big handicap for local and foreign businesses.

The latest drawback is a soaring crime rate, which makes it difficult for foreign companies to attract managers to Mexico. On the other hand, the security companies specialising in anti-nap services, armoured cars and bodyguards are making a beeline for Mexico.



Reynosa is one of Mexico's leading 'maquiladoras'. Labour and housing shortages in border areas have become a serious constraint AP

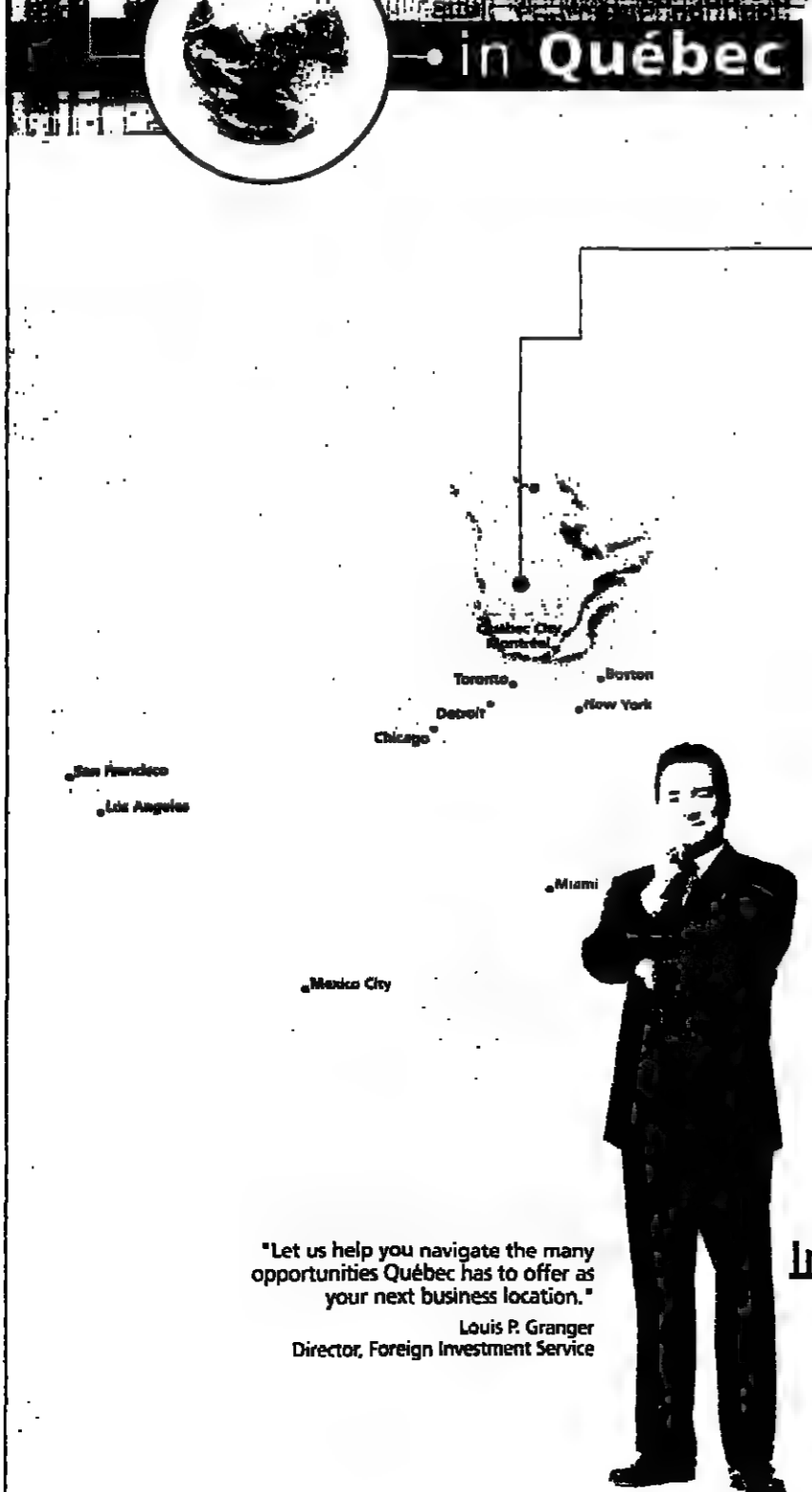


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Markey Ventures	1	117
Markey Ventures	1	31

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0	11-731	11-732	11-733	11-734	11-735	11-736	11-737	11-738	11-739	11-740	11-741	11-742	11-743	11-744	11-745	11-746	11-747	11-748	11-749	11-750	11-751	11-752	11-753	11-754	11-755	11-756	11-757	11-758	11-759	11-760	11-761	11-762	11-763	11-764	11-765	11-766	11-767	11-768	11-769	11-770	11-771	11-772	11-773	11-774	11-775	11-776	11-777	11-778	11-779	11-780	11-781	11-782	11-783	11-784	11-785	11-786	11-787	11-788	11-789	11-790	11-791	11-792	11-793	11-794	11-795	11-796	11-797	11-798	11-799	11-800	11-801	11-802	11-803	11-804	11-805	11-806	11-807	11-808	11-809	11-810	11-811	11-812	11-813	11-814	11-815	11-816	11-817	11-818	11-819	11-820	11-821	11-822	11-823	11-824	11-825	11-826	11-827	11-828	11-829	11-830	11-831	11-832	11-833	11-834	11-835	11-836	11-837	11-838	11-839	11-840	11-841	11-842	11-843	11-844	11-845	11-846	11-847	11-848	11-849	11-850	11-851	11-852	11-853	11-854	11-855	11-856	11-857	11-858	11-859	11-860	11-861	11-862	11-863	11-864	11-865	11-866	11-867	11-868	11-869	11-870	11-871	11-872	11-873	11-874	11-875	11-876	11-877	11-878	11-879	11-880	11-881	11-882	11-883	11-884	11-885	11-886	11-887	11-888	11-889	11-890	11-891	11-892	11-893	11-894	11-895	11-896	11-897	11-898	11-899	11-900	11-901	11-902	11-903	11-904	11-905	11-906	11-907	11-908	11-909	11-910	11-911	11-912	11-913	11-914	11-915	11-916	11-917	11-918	11-919	11-920	11-921	11-922	11-923	11-924	11-925	11-926	11-927	11-928	11-929	11-930	11-931	11-932	11-933	11-934	11-935	11-936	11-937	11-938	11-939	11-940	11-941	11-942	11-943	11-944	11-945	11-946	11-947	11-948	11-949	11-950	11-951	11-952	11-953	11-954	11-955	11-956	11-957	11-958	11-959	11-960	11-961	11-962	11-963	11-964	11-965	11-966	11-967	11-968	11-969	11-970	11-971	11-972	11-973	11-974	11-975	11-976	11-977	11-978	11-979	11-980	11-981	11-982	11-983	11-984	11-985	11-986	11-987	11-988	11-989	11-990	11-991	11-992	11-993	11-994	11-995	11-996	11-997	11-998	11-999	12-000
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$$\text{Lactone Prod} = \frac{200}{1 + \frac{1}{200}} = 200 \frac{1}{2}$$


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هكذا من الاصل

Highs & Lows shown on a 52 week basis

EUROPE

AUTUMN (Nov 16/17)

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22	116 LMS	1.68	8.2	27	232
23	117 LMS	2.70	10.1	27	232
24	118 LMS	1.46	8.0	27	232
25	119 LMS	1.46	8.0	27	232
26	120 LMS	1.46	8.0	27	232
27	121 LMS	1.46	8.0	27	232
28	122 LMS	1.46	8.0	27	232
29	123 LMS	1.46	8.0	27	232
30	124 LMS	1.46	8.0	27	232
31	125 LMS	1.46	8.0	27	232
32	126 LMS	1.46	8.0	27	232
33	127 LMS	1.46	8.0	27	232
34	128 LMS	1.46	8.0	27	232
35	129 LMS	1.46	8.0	27	232
36	130 LMS	1.46	8.0	27	232
37	131 LMS	1.46	8.0	27	232
38	132 LMS	1.46	8.0	27	232
39	133 LMS	1.46	8.0	27	232
40	134 LMS	1.46	8.0	27	232
41	135 LMS	1.46	8.0	27	232
42	136 LMS	1.46	8.0	27	232
43	137 LMS	1.46	8.0	27	232
44	138 LMS	1.46	8.0	27	232
45	139 LMS	1.46	8.0	27	232
46	140 LMS	1.46	8.0	27	232
47	141 LMS	1.46	8.0	27	232
48	142 LMS	1.46	8.0	27	232
49	143 LMS	1.46	8.0	27	232
50	144 LMS	1.46	8.0	27	232
51	145 LMS	1.46	8.0	27	232
52	146 LMS	1.46	8.0	27	232
53	147 LMS	1.46	8.0	27	232
54	148 LMS	1.46	8.0	27	232
55	149 LMS	1.46	8.0	27	232
56	150 LMS	1.46	8.0	27	232
57	151 LMS	1.46	8.0	27	232
58	152 LMS	1.46	8.0	27	232
59	153 LMS	1.46	8.0	27	232
60	154 LMS	1.46	8.0	27	232
61	155 LMS	1.46	8.0	27	232
62	156 LMS	1.46	8.0	27	232
63	157 LMS	1.46	8.0	27	232
64	158 LMS	1.46	8.0	27	232
65	159				
- V -					
20	157 OF	0.84	1.8	18	819
21	158 OF	0.84	1.8	18	819
22	159 OF	0.84	1.8	18	819
23	160 OF	0.84	1.8	18	819
24	161 OF	0.84	1.8	18	819
25	162 OF	0.84	1.8	18	819
26	163 OF	0.84	1.8	18	819
27	164 OF	0.84	1.8	18	819
28	165 OF	0.84	1.8	18	819
29	166 OF	0.84	1.8	18	819
30	167 OF	0.84	1.8	18	819
31	168 OF	0.84	1.8	18	819
32	169 OF	0.84	1.8	18	819
33	170 OF	0.84	1.8	18	819
34	171 OF	0.84	1.8	18	819
35	172 OF	0.84	1.8	18	819
36	173 OF	0.84	1.8	18	819
37	174 OF	0.84	1.8	18	819
38	175 OF	0.84	1.8	18	819
39	176 OF	0.84	1.8	18	819
40	177 OF	0.84	1.8	18	819
41	178 OF	0.84	1.8	18	819
42	179 OF	0.84	1.8	18	819
43	180 OF	0.84	1.8	18	819
44	181 OF	0.84	1.8	18	819
45	182 OF	0.84	1.8	18	819
46	183 OF	0.84	1.8	18	819
47	184 OF	0.84	1.8	18	819
48	185 OF	0.84	1.8	18	819
49	186 OF	0.84	1.8	18	819
50	187 OF	0.84	1.8	18	819
51	188 OF	0.84	1.8	18	819
52	189 OF	0.84	1.8	18	819
53	190 OF	0.84	1.8	18	819
54	191 OF	0.84	1.8	18	819
55	192 OF	0.84	1.8	18	819
56	193 OF	0.84	1.8	18	819
57	194 OF	0.84	1.8	18	819
58	195 OF	0.84	1.8	18	819
59	196 OF	0.84	1.8	18	819
60	197 OF	0.84	1.8	18	819
61	198 OF	0.84	1.8	18	819
62	199 OF	0.84	1.8	18	819
63	200 OF	0.84	1.8	18	819
64	201 OF	0.84	1.8	18	819
65	202 OF	0.84	1.8	18	819
66	203 OF	0.84	1.8	18	819
67	204 OF	0.84	1.8	18	819
68	205 OF	0.84	1.8	18	819
69	206 OF	0.84	1.8	18	819
70	207 OF	0.84	1.8	18	819
71	208 OF	0.84	1.8	18	819
72	209 OF	0.84	1.8	18	819
73	210 OF	0.84	1.8	18	819
74	211 OF	0.84	1.8	18	819
75	212 OF	0.84	1.8	18	819
76	213 OF	0.84	1.8	18	819
77	214 OF	0.84	1.8	18	819
78	215 OF	0.84	1.8	18	819
79	216 OF	0.84	1.8	18	819
80	217 OF	0.84	1.8	18	819
81	218 OF	0.84	1.8	18	819
82	219 OF	0.84	1.8	18	819
83	220 OF	0.84	1.8	18	819
84	221 OF	0.84	1.8	18	819
85	222 OF	0.84	1.8	18	819
86	223 OF	0.84	1.8	18	819
87	224 OF	0.84	1.8	18	819
88	225 OF	0.84	1.8	18	819
89	226 OF	0.84	1.8	18	819
90	227 OF	0.84	1.8	18	819
91	228 OF	0.84	1.8	18	819
92	229 OF	0.84	1.8	18	819
93	230 OF	0.84	1.8	18	819
94	231 OF	0.84	1.8	18	819
95	232 OF	0.84	1.8	18	819
96	233 OF	0.84	1.8	18	819
97	234 OF	0.84	1.8	18	819
98	235 OF	0.84	1.8	18	819
99	236 OF	0.84	1.8	18	819
100	237 OF	0.84	1.8	18	819

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姓名	性别	年龄	籍贯	职业	住址	备注
王德胜	男	45	山东	工人	济南市	
李秀英	女	38	河北	教师	石家庄市	
张国强	男	52	河南	农民	郑州市	
刘小红	女	28	湖北	医生	武汉市	
陈为民	男	40	四川	工程师	成都市	
周大伟	男	35	广东	商人	广州市	
吴小芳	女	25	浙江	学生	杭州市	
赵子龙	男	50	山西	工人	太原市	
孙丽娟	女	30	湖南	护士	长沙市	
郑永年	男	42	安徽	农民	合肥市	
马小华	女	22	江西	学生	南昌市	
徐大为	男	33	福建	商人	福州市	
林小梅	女	27	广西	教师	南宁市	
周国强	男	48	陕西	工人	西安市	
吴小芳	女	31	云南	医生	昆明市	
赵子龙	男	55	贵州	农民	贵阳市	
孙丽娟	女	29	海南	学生	海口市	
郑永年	男	41	宁夏	工人	银川市	
马小华	女	24	新疆	商人	乌鲁木齐市	
徐大为	男	36	内蒙古	教师	呼和浩特市	
林小梅	女	26	吉林	护士	长春市	
周国强	男	49	辽宁	工人	沈阳市	
吴小芳	女	32	黑龙江	医生	哈尔滨市	
赵子龙	男	56	河北	农民	石家庄市	
孙丽娟	女	30	山东	学生	济南市	
郑永年	男	43	河南	工人	郑州市	
马小华	女	25	湖北	商人	武汉市	
徐大为	男	37	湖南	教师	长沙市	
林小梅	女	28	安徽	护士	合肥市	
周国强	男	50	江西	工人	南昌市	
吴小芳	女	33	福建	医生	福州市	
赵子龙	男	57	广西	农民	南宁市	
孙丽娟	女	31	陕西	学生	西安市	
郑永年	男	44	云南	工人	昆明市	
马小华	女	26	贵州	商人	贵阳市	
徐大为	男	38	海南	教师	海口市	
林小梅	女	29	宁夏	护士	银川市	
周国强	男	51	新疆	工人	乌鲁木齐市	
吴小芳	女	34	内蒙古	医生	呼和浩特市	
赵子龙	男	58	吉林	农民	长春市	
孙丽娟	女	32	辽宁	学生	沈阳市	
郑永年	男	45	黑龙江	工人	哈尔滨市	
马小华	女	27	河北	商人	石家庄市	
徐大为	男	39	山东	教师	济南市	
林小梅	女	30	河南	护士	郑州市	
周国强	男	52	湖北	工人	武汉市	
吴小芳	女	35	湖南	医生	长沙市	
赵子龙	男	59	安徽	农民	合肥市	
孙丽娟	女	33	江西	学生	南昌市	
郑永年	男	46	福建	工人	福州市	
马小华	女	28	广西	商人	南宁市	
徐大为	男	40	陕西	教师	西安市	
林小梅	女	31	云南	护士	昆明市	
周国强	男	53	贵州	工人	贵阳市	
吴小芳	女	36	海南	医生	海口市	
赵子龙	男	60	宁夏	农民	银川市	
孙丽娟	女	34	新疆	学生	乌鲁木齐市	
郑永年	男	47	内蒙古	工人	呼和浩特市	
马小华	女	29	吉林	商人	长春市	
徐大为	男	41	辽宁	教师	沈阳市	
林小梅	女	32	黑龙江	护士	哈尔滨市	
周国强	男	54	河北	工人	石家庄市	
吴小芳	女	37	山东	医生	济南市	
赵子龙	男	61	河南	农民	郑州市	
孙丽娟	女	35	湖北	学生	武汉市	
郑永年	男	48	湖南	工人	长沙市	
马小华	女	30	安徽	商人	合肥市	
徐大为	男	42	江西	教师	南昌市	
林小梅	女	33	福建	护士	福州市	
周国强	男	55	广西	工人	南宁市	
吴小芳	女	38	陕西	医生	西安市	

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Index	SET	Date	Previous 12-17-99	Change 12-17-99	% Change	1999 Index	1999 Low
FEARUS	USD	2264.78	2166.80	1872.80	+914.32	2451.00	2105.54
Pharm	USD	1990.15	1938.49	2224.70	+235.00	2181.00	1985.17
Non-Health goods	USD	1727.08	1749.36	1685.00	+262.35	1788.87	1727.07
04-00205	USD	2086.96	1968.00	1952.00	+318.78	2196	1943.92
04-00206	USD	1935.19	1935.19	1932.71	+3.48	1935.19	1932.71
Pharm	USD	1958.89	1987.70	1575.90	+302.22	1927	1791.56
Pharmaceuticals	USD	1653.89	1499.80	1404.34	+454.80	1698.00	1398.90
04-00208	USD	1717.22	1725.85	1655.00	+435.00	1715.51	1665.55
04-00209	USD	2202.84	2202.84	2151.44	+51.40	2202.84	2151.44
Pharm	USD	2266.85	2266.19	2124.54	+639.34	2270	2062.50

Further information about the INSECTIS and its constituents are available for download or on our web-site <http://www.eurochem-europe.com> and further information about Eurochem is on <http://www.eurochem.com>. A free daily index update can also be downloaded on the web. For hard copy information please call London (+44 171 330 7888) or Brussels (+32 2 509 94 00).

هكذا عن الامم

GLOBAL EQUITY MARKETS

US INDICES										US DATA										JAPAN										FRANCE															
Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8						
Dow Jones	8518.50	8528.74	8522.02	8532.87	8528.00	8537.87	8528.00	8537.87	8528.00	Market Activity	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nikkei 225	14627.77	14628.21	14676.06	14724.34	14737.57	14735.83	14735.83	14735.83	14735.83	CAC 40	3571.85	3572.22	3572.22	3572.22	3572.22	3572.22	3572.22	3572.22	3572.22						
S&P 500	106.48	106.35	106.01	106.12	106.12	106.12	106.12	106.12	106.12	Volume	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	TOPIX	14627.77	14628.21	14676.06	14724.34	14737.57	14735.83	14735.83	14735.83	14735.83	TOPIX	14627.77	14628.21	14676.06	14724.34	14737.57	14735.83	14735.83	14735.83	14735.83						
Industrial	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8
Transport	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8
Utilities	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8

INDEX FUTURES										WORLD MARKETS AT A GLANCE										
Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8	Country	Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8
Dow Jones	8518.50	8528.74	8522.02	8532.87	8528.00	8537.87	8528.00	8537.87	8528.00	Argentina	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34
S&P 500	106.48	106.35	106.01	106.12	106.12	106.12	106.12	106.12	106.12	Brazil	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34
Industrial	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	Canada	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34
Transport	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	France	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34
Utilities	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00	Germany	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34	15827.34

* See Nov 14 News for details on the Dow Jones Industrial Average. * See Nov 14 News for details on the S&P 500. * See Nov 14 News for details on the Industrial Average. * See Nov 14 News for details on the Transport Average. * See Nov 14 News for details on the Utilities Average. * See Nov 14 News for details on the Dow Jones Industrial Average. * See Nov 14 News for details on the S&P 500. * See Nov 14 News for details on the Industrial Average. * See Nov 14 News for details on the Transport Average. * See Nov 14 News for details on the Utilities Average.

THE NASDAQ-AMEX MARKET GROUP

Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8
Dow Jones	8518.50	8528.74	8522.02	8532.87	8528.00	8537.87	8528.00	8537.87	8528.00
S&P 500	106.48	106.35	106.01	106.12	106.12	106.12	106.12	106.12	106.12
Industrial	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00
Transport	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00
Utilities	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00

THE NASDAQ-AMEX MARKET GROUP

Index	Nov 16	Nov 15	Nov 14	Nov 13	Nov 12	Nov 11	Nov 10	Nov 9	Nov 8
Dow Jones	8518.50	8528.74	8522.02	8532.87	8528.00	8537.87	8528.00	8537.87	8528.00
S&P 500	106.48	106.35	106.01	106.12	106.12	106.12	106.12	106.12	106.12
Industrial	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00
Transport	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00
Utilities	2518.50	2528.74	2522.02	2532.87	2528.00	2537.87	2528.00	2537.87	2528.00

